# Weekly Trader

Upcoming Market Opportunities and Events

CANTOR Fitzgerald

Monday, 29th May 2017

## Key Themes this Week

**EURGBP - Giving Cause for Concern**

We had been highlighting how historically sterling had appreciated as the Tory party went up in the polls and vice versa. The latest YouGov poll, taken after the Manchester attack, shows the Conservatives' lead has been reduced to a mere 5 points. This is down from 18 points less than two months ago. The latest poll had Conservatives 43%, Labour 38%, LibDems 10% and UKIP 45. This is the smallest lead since April 2016 when the Tory party was riven by infighting over the Brexit referendum. Mrs. May has had just about as bad a campaign as she possibly could. Her manifesto alienated a lot of the Tory core base without having the desired effect on left of center voters she was hoping for. She has since backtracked on her manifesto promise of removing the cap on social care payments. As we expected sterling has weakened as Labour have closed in the polls, moving from €1.19 to €1.148. If that gap between Labour and the Tory Party continues to decline it is likely sterling will weaken further. However it is unlikely that it will close further than the current 5% and in fact may begin to widen again as the Tories steady the ship.

**US Yield Curve - Worrying Flattening**

Following on from the Trump election the spread between the US 2 year and 10 year yield pushed out to 1.4% as expectations of future growth and inflation soared. However, since the start of the year this yield has come in appreciably to 0.95%. When a yield curve flattens in this manner it means expectations for future inflation, and by implication future growth, have been reduced. Slowly but surely the upside risk to growth have dissipated as the much vaunted infrastructure and tax reform programs have become increasingly unlikely. At the same time Mr Trump has proposed a budget to Congress that is unlikely to be well received by either side of the House. Treasury Secretary Mnuchin has stated that the goal of the White House is to return America to 3% GDP growth. This is a very lofty target when you take into account falling productivity and unfavorable demographics. The recent softness in US economic data has resulted in some Fed officials engaging in more dovish rhetoric ahead of its June meeting, at which the market is expecting the Fed to raise rates. The US Non-Farm Payrolls number this week should offer some clarity in the matter.

**Upcoming AIB IPO**

As reported in the media, the Government are likely to offer certain AIB shares, in a secondary market offering or IPO, to potential investors and certain stockbrokers will be appointed as registered intermediaries to the government and Cantor Fitzgerald are hopeful of being appointed. We understand a minimum allocation amount of €10,000 may apply. Commissions will be payable by the State and not by the client applying. For existing clients these any such orders could be processed via your existing account and new clients can opt to set up accounts online. We will let you know progress and related information closer to the time of any possible offering. Expectations are for an announcement this coming Wednesday

**Stock Coverage**

This week we highlight our views on Daimler, Siemens, Ryanair, Green and Glanbia

## Major Markets Last Week

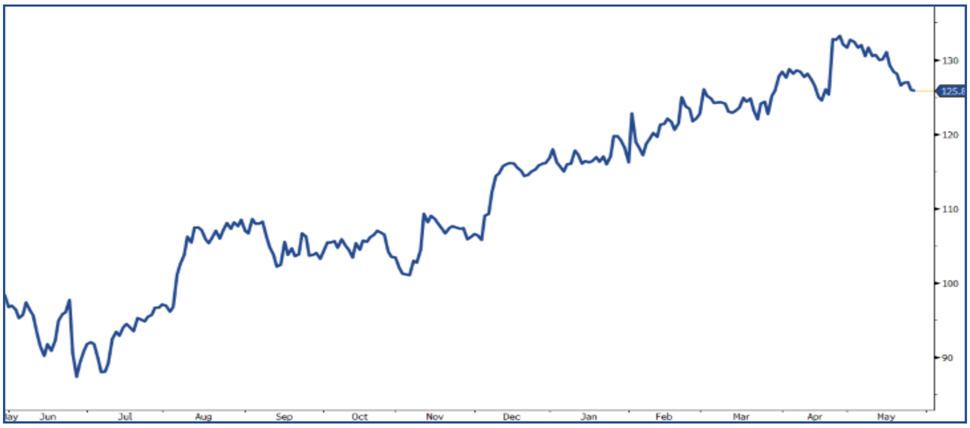
| | Value | Change | % Move |
|---|---|---|---|
| Dow | 21080 | 275.44 | 1.32% |
| S&P | 2416 | 34.09 | 1.43% |
| Nasdaq | 6210 | 126.49 | 2.08% |
| UK Index | 7548 | 76.92 | 1.03% |
| DAX | 12594 | -25.57 | -0.20% |
| ISEQ | 6974 | 46.06 | 0.66% |
| Nikkei | 19,683 | 4.29 | 0.02% |
| H.Seng | 25,713 | 321.56 | 1.27% |
| STOXX600 | 391 | 0.01 | 0.00% |
| Brent Oil | 52.26 | -1.61 | -2.99% |
| Crude Oil | 49.75 | -0.98 | -1.93% |
| Gold | 1267 | 6.41 | 0.51% |
| Silver | 17.3548 | 0.19 | 1.09% |
| Copper | 255.75 | -3.80 | -1.46% |
| CRB Index | 433.74 | 0.62 | 0.14% |
| Euro/USD | 1.1179 | -0.01 | -0.52% |
| Euro/GBP | 0.8711 | 0.01 | 0.77% |
| GBP/USD | 1.2834 | -0.02 | -1.28% |

| | Value | Change |
|---|---|---|
| German 10 Year | 0.333 | -0.06 |
| UK 10 Year | 1.012 | -0.08 |
| US 10 Year | 2.2465 | -0.01 |
| Irish 10 Year | 0.8 | -0.07 |
| Spain 10 Year | 1.558 | -0.07 |
| Italy 10 Year | 2.136 | 0.00 |
| BoE | 0.25 | 0.00 |
| ECB | 0.00 | 0.00 |
| Fed | 1.00 | 0.00 |

# Daimler Siemens Switch

SIE Closing Price: €125.65

Will Heffernan | Investment Analyst



| Siemen Key Metrics | 2017e | 2018e | 2019e |
|---|---|---|---|
| Revenue (€'bn) | 85.13 | 90.26 | 92.39 |
| EPS (€) | 8.12 | 8.55 | 9.12 |
| Price/ Earnings | 15.47 | 14.69 | 13.78 |
| Div Yield | 3.09% | 3.24% | 3.36% |

| Share Price Return | 1 Mth | 3 Mth | YTD |
|---|---|---|---|
| Siemens | -5.28% | 3.46% | 7.66% |

Source: Bloomberg

Last week Daimler offices were raided as part of a criminal investigation into diesel emission manipulation allegations. The Stuttgart's prosecutors' office raided 11 properties in four German states, including in its home state of Baden-Wuerttemberg. A probe was opened last month into an unspecified number of current and former employees over emission manipulation. The employees are being probed for possible fraud and false advertising. The overall sector has faced headwinds since Volkswagen revealed back in September 2015 that it had installed software in its diesel vehicles to fool pollution tests. Authorities are now investigating whether a separate technology has been implemented that allows emission controls to switch off at certain temperatures to protect engines.

Daimler's Mercedes Benz unit had already agreed in April to a voluntary recall in Europe to fix temperature controlled setups on its diesel cars' emission systems. A total of 630,000 cars were recalled. German environmental groups have accused Mercedes Benz of breaching emission rules, which the company has refuted. VW has since apologised and paid compensation in the US. It has not faced fines in Germany which could indicate Daimler will not either. However, scrutiny of the industry is sure to increase across the board in the coming months. This comes at the same time as car sales are weak in the US and China, two very important market for Daimler. Daimler's share price declined on the day but is holding around the €66 level. It is prudent to take action as we believe sentiment will drive the share price in the near term. This, allied with weaker car sales, leads us to change our rating to Underperform and remove Daimler from the Cantor Fitzgerald Core Portfolio. From date of inclusion in the core portfolio to date of removal we are flat on Daimler. We believe it is prudent to act now based on the above headwinds.

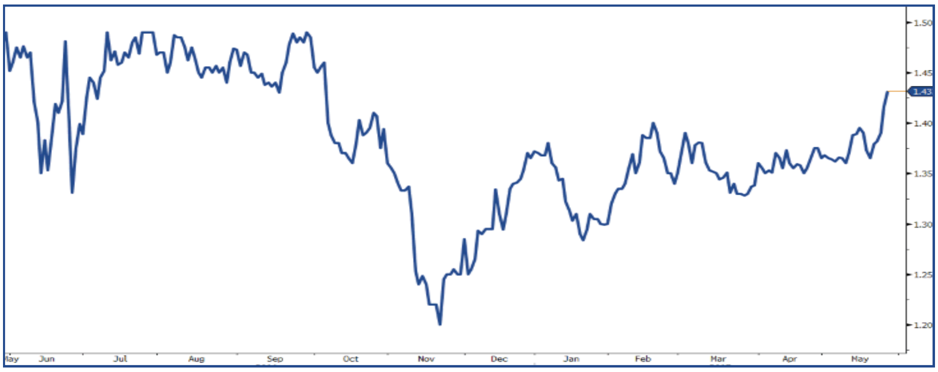
We are replacing Daimler with Siemens. Siemens was moved from Underperform to Outperform in early January as outlined in the Daily Note earlier on in the year. CEO Joe Kaeser has spent the recent years narrowing down the company's focus to energy, factory automation and industrial software as part of the "Vision 2020" program. The latter two areas have huge potential growth with the advent of AI and Big Data. Siemens is to the forefront in developing software & hardware to make factories and production processes more automated and smarter. With that in mind Siemens has already sold most of its light-bulb division and announced plans to publicly list its health care subsidiary. There is also speculation that Siemens Mobility, the rail division, which is approx. 9.2% of sales will be spun off into a joint venture with Bombardier. This division has been underperforming due to CRRC scale in the marketplace. If this JV were to happen we would welcome it as further proof of the current management sticking to their strategic vision that will ensure Siemens is best placed out of all the multi-industrials to exploit the automation trends that are coming.

We believe the "Vision 2020" restructuring will benefit Siemens for years to come. From a technical perspective Siemens rallied 14% in the aftermath of our ratings change. That is a substantial rally for multi-industrial stock but we believe investors had begun to recognise the multi-year benefits of the restructuring programme. It has since retraced approx. 6% and is now at a level we are comfortable buying in at. Siemens currently trades at 2018 estimated P/E of 15.44x, substantially less than the overall sector average at 18x. It is facing into some headwinds in some of its core markets, most notably turbines, but we believe management is of the highest calibre and should be able to navigate these bumps in the road. Lastly, the recent earnings release was well ahead of consensus and management guided optimistically for the second half of 2017.

## Green REIT – Brexit Tailwinds starting to gather

Closing Price: €1.43

Will Heffernan | Investment Analyst



| Key Metrics | 2017e | 2018e | 2019e |
|---|---|---|---|
| Revenue (€'mn) | 59.1 | 63.4 | 70.8 |
| EPS (€'c) | 10.8 | 8.7 | 7.8 |
| P/E | 13.27 | 16.47 | 18.37 |
| Div Yield | 3.42% | 3.7% | 4.33% |

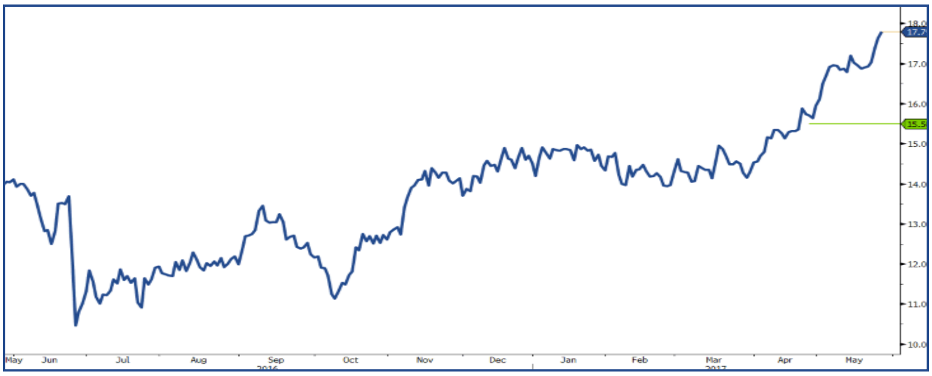
| Share Price Return | 1 Mth | 3 Mth | YTD |
|---|---|---|---|
| GRN ID | 4.98% | 3.09% | 4.37% |

The European REIT sector has played the laggard so far in 2017 to growth sectors. European rate rises have probably played their pair with the German 10 year rising from 0.2% to 0.46% as yields and REITs have an inverse relationship. However, we believe now is currently a good point to increase exposure to the Dublin corporate office space. Office demand continues to remain buoyant with most new supply the subject of pre-let agreements at above expected rental value. Secondly, it would appear that Brexit related moves of UK financial firms are now gaining traction. In the last three weeks Investec, Legg Mason and Standard Life have confirmed Dublin as their choice destination for their new European hubs. This follows on from previous confirmation from 5 other institutions earlier in the year. The widespread expectation is that these moves start to commence in H2/17. The Dublin corporate office space cycle is fairly mature at this stage with a significantly reduced percentage of the return stemming from asset price appreciation. Instead rental roll increases generate the majority of return. Rents continue to come in ahead of expectations and Brexit related moves may extend out this phase of the cycle for longer than previously thought. From an interest rate perspective, that can be viewed as benign with the ECB committed to no rate hikes before 2018. Green is currently trading at 13% discount to its estimated 2017 NAV of €1.627 and has the potential to rerate higher on the back of rental roll growth stemming from renegotiated leases and Brexit related moves. Our 12 month price target is in the €1.60 – 1.63 range which implies a return of 13-15% from current levels.

## Ryanair – FY17 Results Preview — Lighten up on positions

Closing Price: €17.93

Stephen Hall, CFA | Investment Analyst



| Key Metrics | 2017e | 2018e | 2019e |
|---|---|---|---|
| Revenue (€'bn) | 6.667 | 7.031 | 7.794 |
| EPS (€) | 1.052 | 1.210 | 1.287 |
| P/E | 16.9x | 14.7x | 13.8x |
| Div Yield | 0.0% | 0.0% | 0.00% |

| Share Price Return | 1 Mth | 3 Mth | YTD |
|---|---|---|---|
| RYA | 13.7% | 25.9% | 23.4% |

Ryanair's share price has had an excellent run over the past 2 months. Rallying from an April low of €14 to another new all-time last Friday to €17.93, representing a rally of over 28% in less than 2 months. Very strong April traffic stats which were released at the beginning of May and signs that Ryanair's proposed feeder flight partnerships are beginning to gain traction have been the main catalysts behind this rally. Then Ryanair CEO, Michael O'Leary said in a conference earlier in the week, he expects tomorrow's FY17 results to be strong which added another leg to the rally. Technically, the stock is extremely overbought, with a daily RSI reading of 81, and this is despite a noticeable weakening in the sterling pound in recent weeks which is a headwind to earnings. The market is anticipating net income of €1.315bn, which is towards the lower end of managemShaent's guidance. The market is forecasting 11% earnings growth in FY18, which seems achievable given that passengers carried are expected to increase by 8.3% to 130 million from 119.7 million carried in FY17, and that two Easter holidays seasons fall in FY18. Given the extent of the recent rally, tomorrow's results would need to be a significant beat in order for the stock to continue its recent rally in our opinion. However, any signs from management that Ryanair Holidays and Ryanair Rooms are performing ahead of analyst's low expectations for these services could support earnings growth. Its outlook on the pricing environment will be closely watched too. Even if results are strong, we feel we might see some profit taking or consolidation in the stock in the near term. However, we remain bullish on the stock given a longer term investment horizon given its competitive advantage on fares, which translates into an competitive advantage on fares which should enable the airline continues to capture market share from key competitors in Europe.

## Glanbia - Near term trade opportunity    Closing Price: €17.89

Stephen Hall, CFA | Investment Analyst


| Key Metrics | 2017e | 2018e | 2019e |
|---|---|---|---|
| Revenue (€'bn) | 2.83 | 2.71 | 2.85 |
| EPS (€'c) | 82.9 | 90.2 | 98 |
| Price/ Earnings | 19.3x | 18.2x | 16.7x |
| Div Yield | 0.83% | 0.89% | 0.97% |

| Share Price Return | 1 Mth | 3 Mth | YTD |
|---|---|---|---|
| Glanbia | -4.59% | 4.01% | 13.4% |

Source: Bloomberg

Last week, Glanbia Co-op placed 8.7m shares of Glanbia Plc yesterday at €17.80, and its share price traded toward 1st support at €17.55. This placing by Glanbia Co-op was used to fund the spin-off of Glanbia Ireland, and was a negative overhang to the stock over the past month and now that this placement is out of the way, we think Glanbia Plc's share price can recover back towards all-time highs seen in April 2017. We'd look for this support level at €17.55 to hold in the near term, and we remain buyers of the stock on weakness as we remain bullish on the underlying fundamentals of Glanbia Plc. A strengthening EUR vs. the USD seen over the past month, has also been a headwind to the stock, however EURUSD has rallied towards the upper end of our revised $1.07 - $1.13 range we expect this range to hold for the remainder of 2017. Post the spinoff of Dairy Ireland, Glanbia Plc's two remains divisions, Glanbia Performance Nutrition (GPN) and Glanbia Nutritionals (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 yearend. 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. We are fundamentally positive on the long term prospects of the business following on from a two very positive sets of results; its FY16 results released in March and Q1/17 released in early May. We view the 12 month consensus target price at €20.09, as an achievable target. Glanbia currently trades at 19.2x FY17e earnings.

## From the News - Monday Headlines

- **Global** G7 lays bare the divide between US and partners
- **Europe** We can no longer rely on US, says Merkel
- **US** Trump goes on the offensive over Kushner allegations
- **UK** Frustrated business leaders seek to rebuild ties with No. 10
- **Oil** Saudi Arabia and Russia stuck in unlikely alliance
- **Ireland** Varadakar set to risde "X factor" to power in Ireland
- **Dublin** Hotel room supply to jump by 15%, says Savills

## 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.

## This Weeks Market Events

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|
| **Corporate** | **Corporate** | **Corporate** | **Corporate** | **Corporate** |
| NA | IRES REIT - AGM.<br>Aryzta - Q3<br>Ryanair - FY. | NA | NA | NA |
| **Economic** | **Economic** | **Economic** | **Economic** | **Economic** |
| NA | GE CPI YoY<br>US PCE Core YoY<br>Dallas Fed Manf. Index | CH Manf. PMI<br>FR CPI YoY<br>US Mortgage Applications | US ADP Employment<br>EC PMI<br>US ISM Manf. | EC PPI YoY<br>US NFP<br>US Avg Hrly Earnings |

## Upcoming Events

| | |
|---|---|
| 05/06/2017 NA | 05/06/2017 CH PMI, UK PMI, US Durable Goods |
| 06/06/2017 NA | 06/06/2017 EC PMI, EC Retail Sales |
| 07/06/2017 NA | 07/06/2017 EC GDP SA YoYm GE Factory Orders |
| 08/06/2017 SIG ex div | 08/06/2017 ECB Refi Rate, |
| 09/06/2017 NA | 09/06/2017 CH PPI, UK Industrial Production |

## **Cantor** in The Media

- CNBC Online: Peter Cecchini , Chief Market Strategist at Cantor Fitzgerald discusses sentiment around the current economic and market climates- View Clip

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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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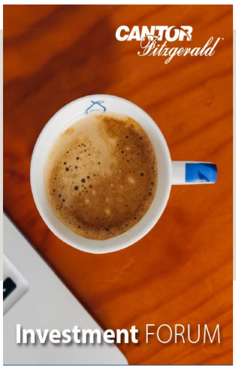


## Investment Forum

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

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# Regulatory Information

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

**Green REIT:** Green REIT plc operates as a property investment company. The Company invests in a portfolio of long-lease and freehold, primarily commercial and mainly Dublin-based properties

**Daimler:** Daimler AG develops, manufactures, distributes, and sells a wide range of automotive products, mainly passenger cars, trucks, vans, and buses

**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

**Ryanair:** Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

**Siemens:** Siemens AG is an engineering and manufacturing company. The Company focuses on four major business sectors including infrastructure and cities, healthcare, industry and energy. Siemens AG also provides engineering solutions in automation and control, power, transportation, and medical.

**Historical Record of recommendation**

**Green REIT:** We have an Outperform rating for Green REIT since 09/02/15 and no changes to the recommendation have been made in the last 12 months

**Daimler:** We have added Daimler to our core portfolio on the 01/01/16, we revised our rating to Market perform from Outperform on the 25/05/17.

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

**Ryanair:** Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then.

**Siemens:** We changed our rating to Outperform on the 30/01/02017.

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

Date of distribution

The first date of distribution is the same date as this report unless otherwise specified.

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