

Tuesday, 27<sup>th</sup> June 2017

## Morning Round Up

### Italy – Banking Bailout Good for Sector

News broke over the weekend that Italy had carried out its bank rescue on record, committing as much as €17bn to clean up two failing banks, Banca Popolare di Vicenza and Veneto Banca. This includes supports for Intesa Sanpaolo, who have agreed to buy both banks for the token amount of €1. The European Commission approved the plan and the Single Resolution Mechanism (SRM), the vehicle set up to allow banks to fail, did not intervene. The majority of bondholders for the two banks are Italian savers and the EU was unlikely to allow them to be burned in advance of a possible Italian election in early 2018. Italian banking uncertainty has been a substantial overhang on the sector for the past 3-4 years and this news is good for the sector. However, the sector continues to face the headwind of declining yields.

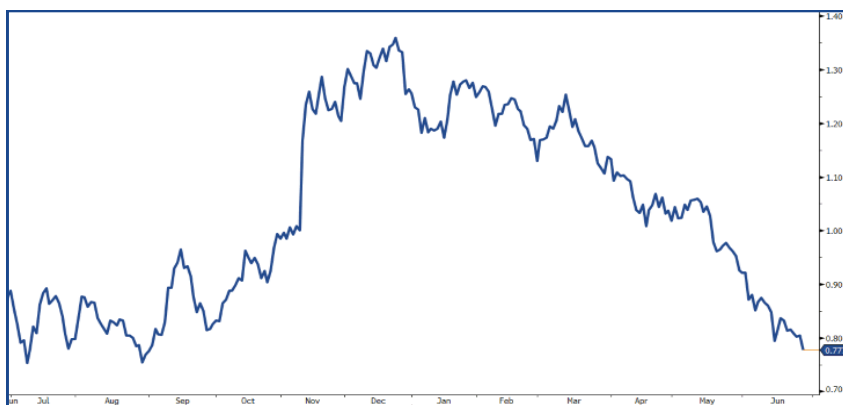
### UK – May & DUP Reach Agreement

Theresa May and the DUP reached a deal yesterday ensuring support for her minority government in key votes in Parliament. In exchange, Prime Minister May had to pledge an additional £1bn funding over 2 years for Northern Ireland and get rid of manifesto commitments regarding pensions and winter fuel payments. The Tories and the DUP now have 327 of the 650 seats in the House of Commons. Opposition parties have 314 making it a very slim majority. It remains to be seen whether the government in its current makeup will stand the test of time. The first test should be this week as Mrs May sets out her legislative agenda. This should be Brexit dominated and contain some bills that will be controversial.

### US Yields – Technical Picture

Despite hawkish rhetoric from numerous Fed officials over the past month or so, the US 10 year continues to decline while the US 2 year continues to rise. This spread has narrowed substantially leading to a flattening of the yield curve. There are two critical events this week that will dictate where the trend goes from here. Firstly US Personal Consumption Expenditure (PCE) inflation data, the Fed's preferred measure of inflation is out on Thursday. This should give some indication if inflation has indeed softened. Secondly from a technical perspective the US 10 year yield, currently trading at 2.13%, looks as if it may have another bearish confirmation later on in the week. The 50 day moving average looks like it is poised to cross the 200 day average. If this occurs it will confirm the recent bearish trend and may result in further declines, possibly down to the 2% level.

### US Yields—10year 2 year spread



### Key Upcoming Events

05/07/17 - FOMC Minutes Released

07/07/17 - US NFP Numbers

### Market View

European equities opened c. 0.50% lower this morning. Utility stocks and dividend paying stocks outperformed in the US yesterday as yields drifted lower. Yesterday's bailout of 2 small Italian regional banks boosted sentiment to the European financial sector. Key market focus today is talks from the Federal Reserve Chairwoman, Janet Yellen which will be closely followed for additional clues on the future path of rate hikes by the Fed over the coming 18 months. Brexit negotiations will remain firmly in the headlines, as both parties continue to discuss on-going passporting rights for each other's citizens living abroad. API oil data will be closely watched this morning.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21410	14.79	0.07%	8.33%
S&P	2439	0.77	0.03%	8.94%
Nasdaq	6247	-18.10	-0.29%	16.05%

Nikkei	20,225	71.74	0.36%	5.81%
Hang Seng	25,842	-30.37	-0.12%	17.46%

Brent Oil	46.18	0.35	0.76%	-18.73%
WTI Oil	43.66	0.28	0.65%	-18.73%
Gold	1250	5.69	0.46%	8.97%

€/\$	1.1191	0.0009	0.08%	6.41%
€/£	0.8795	0.0006	0.07%	3.04%
£/\$	1.2724	0.0001	0.01%	3.11%

	Yield	Change
German 10 Year	0.25%	0.002%
UK 10 Year	1.02%	0.010%
US 10 Year	2.13%	-0.005%

Irish 10 Year	0.65%	-0.012%
Spain 10 Year	1.38%	-0.001%
Italy 10 Year	1.90%	0.000%

**Kingspan** (Outperform) - Back to 1st key support

Closing Price - €33.03

**News**

We remain happy to add to positions in Kingspan ahead of its first key major support level at €28.96. We put this recent bout of weakness over the past 7 weeks down to profit taking, after a very strong 6 month run between November 2016 to May 2017 (+52%). The fundamental story remains firmly intact and the stock has de-rated to 18.5x FY17e earnings and nothing has changed about the investment case in our opinion. A near term headwind for the stock is rising MDI chemical prices, however we do not have access to this information on Bloomberg as it isn't a commonly traded raw material input. The market is anticipating a softer H1/17 update, and a recovery in operating margins in H2/17 as the Group should be successful in passing through MDI cost inflation to its customers given its market leading and price marking position in the sector.

**Comment**

Yesterday afternoon, Kingspan announced it has replaced an older €300m RCF facility with a new 5 year €500m facility which will remain in place until June 2022. Kingspan has said in recent month it will remain in acquisitive mode in 2017, however no big announcements to date. It has a very strong balance sheet with a Net Debt/ EBITDA ratio expected to drop to 0.6x by the end of 2017 if the Group doesn't announce any new acquisitions. However, for illustrative purposes if it did make a large €500m acquisition at 8x EBITDA, this could theoretically add €62.5m to 2018's EBITDA forecasts, a 13.4% increase on existing forecasts. A €500m acquisition of this scale would increase Net Debt/ EBITDA multiple by 1.07x, leaving it at 1.67x which would still be considered a lowly geared balance sheet. This new funding line put would likely be used to fund any potential acquisition Kingspan could announce in the near future. Kingspan's management team has been very successful at allocating capital efficiently and effectively in recent years which has supported earnings growth in additional to strong organic volume growth of the underlying categories it operates in gives us confidence to add to positions on signs of weakness.

Stephen Hall, CFA | Investment Analyst

**Green REIT** (Outperform) - Continuing news bodes well for Green REIT

Closing Price - €1.45

**News**

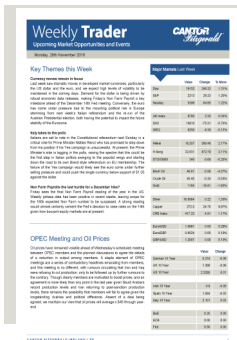
Following a quiet start to the year speculation regarding UK financial firms moving to Dublin really gathered pace, as outlined in the REIT update in our [monthly publication](#). This comes at a time when the domestic Irish corporate sector is also doing well. The last few weeks have followed the same trend. **JPM** are said to be scouting for additional space in Dublin and may acquire or lease 100k sq. ft. which is enough for approx. 770 workers. **Chaucer**, a major UK underwriter has received Central Bank approval for a new Dublin operation. **Jet.com**, a Wal-Mart e-commerce start-up, has agreed to lease more than 30k sq. ft. of office space on Dawson Street. No further details were given. **Facebook** is in talks to lease additional office space in Dublin. It already has plans to lease about 75k sq. ft. near the East Point Business Park but is also weighing further leases in Dublin. No additional details were given. Lastly both **Mizuho Securities** and **Citigroup** held high level meetings with the Minister of Finance in May. This would have more than likely been related to possible moving of some functions to Dublin.

**Comment**

We recently sent out an update on Green REIT in our [Trader](#) in late May advising clients to pick it up on the back of peer's strong performance and increasing news related to potential Brexit relocations. It then traded up approx. 8% to a high of €1.48. It has since traced back down and is currently pricing at €1.45, representing a discount of 12% to estimated 2017 NAV. We believe that the Dublin office sector is in line for a particularly strong second half the year. At this stage in the cycle the majority of gains from asset price appreciation have already passed so it is more of a play on rising rents. In order for REITs to continue to generate above expected rental value demand is key. We believe the moves above, allied with the numerous moves already outlined in our [Journal](#), should enable Green REIT to perform well in the second half of the year. 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

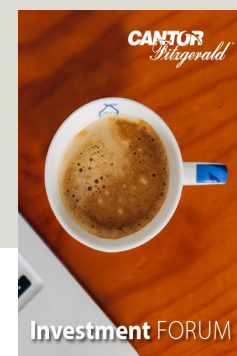
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## Monthly Investment Journal

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)

**Kingspan:** Kingspan Group PLC is a global market player in high performance insulation and building envelope technologies.

**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

### Historical Recommendation

**Kingspan:** We have changed our rating for Kingspan from Not Rated to Outperform on the 14/03/2016.

**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

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