

Wednesday, 7th June 2017

Morning Round Up

Sadiq Khan criticises May's plans to cut police funding

London Mayor, Sadiq Khan said it will be harder to stop future terrorist attacks if Prime Minister, Theresa May wins Thursday's general election and carries out planned changes to the Metropolitan Police's funding. Khan warned the U.K. capital would lose between 3,400 and 12,800 officers if the premier pushes through budget cuts proposed by her Conservative Party. He went on to say "Cuts on this scale would make it harder to foil future terrorist attacks on our city". The recent terror attacks in Manchester and London have brought foreign policy right back into the agenda once again. Recent polls suggest Theresa May's lead has narrowed to just 1 percentage point ahead of tomorrow's UK General Election.

The Cost of Renting a London Home Is Falling Fast

The cost of renting a home in the U.K. capital fell the most in eight years in May as a glut of rental properties came onto the market and affordability issues led Londoners to seek cheaper accommodation. According to HomeLet, the average rent paid in May 2017 fell 3% compared to May 2016. Low real wage growth in an inflationary environment is pressuring landlords' yields. London house prices are also rising at the slowest annual pace in 5 years also.

Embargo on Qatar continues

On Monday, four Arab nations imposed an unprecedented embargo on Qatar. Oil prices briefly jumped, but have since reversed its gains. Three of Qatar's Gulf Cooperation Council colleagues blaming it for backing Islamist groups including the Muslim Brotherhood, and being too friendly with Iran are the main reason for embargo constraints. These 4 countries have imposed a ban on air, land and sea travel. Much of Qatar's food and key equipment comes by land from Saudi Arabia, or reshipments through Dubai's Jebel Ali port. Qatar is a relatively small exporter of oil, but is much larger exporter of liquefied natural gas. Its LNG exports shouldn't be disrupted as it still has access to key sea trading routes including the Suez Canal which is the key route for European export. If the dispute continues to escalate, the most serious retaliation open to Qatar would be to cut off natural gas exports to the UAE through the Dolphin pipeline. This is the latest geopolitical risks for market to navigate.

Oil - price chart



Key Upcoming Events

08/06/17 - UK General Election
 08/06/17 - ECB meeting
 13/06/17 - Fed Meeting

Market View

Markets remain in risk off mode ahead of several key market events this Thursday. The ECB are widely expected to keep its monetary policy unchanged tomorrow, however any signs it plans to taper its current QE programme earlier will certainly give the Euro a bid. Then we have former FBI Director, James Comey public testimony which could stoke concerns about the US political instability. Finally, and most importantly we have the UK General Election. The polls vary widely at this point with one suggesting Theresa May has a 11% lead any another suggesting her lead is just 1%. Investors have taken risk off the table ahead of such uncertainty and classic safe haven assets have caught a bid with gold just shy of \$,1300 an ounce and USDJPY down to 109.29.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21136	-47.81	-0.23%	6.95%
S&P	2429	-6.77	-0.28%	8.51%
Nasdaq	6275	-20.63	-0.33%	16.57%

Nikkei	19,985	4.72	0.02%	4.55%
Hang Seng	25,931	-66.23	-0.25%	17.86%

Brent Oil	49.91	-0.25	-0.50%	-12.16%
WTI Oil	47.87	-0.25	-0.52%	-10.89%
Gold	1292	-1.54	-0.12%	12.59%

€/\$	1.1274	-0.0003	-0.03%	7.20%
€/£	0.8728	-0.0001	-0.01%	2.26%
£/\$	1.2908	-0.0002	-0.02%	4.60%

	Yield	Change
German 10 Year	0.26%	0.008%
UK 10 Year	0.98%	-0.057%
US 10 Year	2.15%	0.003%

Irish 10 Year	0.75%	0.016%
Spain 10 Year	1.55%	0.012%
Italy 10 Year	2.27%	0.010%

CRH (Outperform) - Reiterate outperform on CRH

Closing Price - €31.70

News

We remain positive on the underlying fundamentals of CRH and are happy to pick up the stock at current levels. Management expects modest improvements in volume growth dynamics in H2/17 after a mixed performance in H1/17. In H1/17, EBITDA is likely to be ahead of H1/16 in the Americas, flat in Europe and down in Asian geographies. Management has guided that H1/17 EBITDA will be greater than €1.12bn reported last year. The market is forecasting €1.23bn (9.8% increase YoY) and results are due to be released on the 24th of August.

Comment

The Americas is CRH's biggest operating geography which accounted for 52% of revenues in 2016. Management expects volume growth to improve as US residential construction gradually recovers to long run averages, with the outlook for non-Resi and infrastructure also looking positive. Management expects a broad based recovery to continue in Europe and leading manufacturing and construction indicators in Europe are pointing to possible upside surprises. The Citi Economic Surprise Index for Europe is close to multi-year highs, and its recovery is at a much earlier stage compared to the US. The UK is CRH's biggest market in Europe, however volumes and pricing for all heavyside materials started 2017 very strongly. Its key Asian market is the Philippines, which remains challenging and CRH has given up some market share in order to protect operating margins. It has minority interest positions in China and India which gives it optionality to ramp up production if return on capital looks attractive. However, management expects broad based pricing increases in H2/17 which should help it recover lost market share in the region. CRH's Net Debt/ EBITDA stood at 3.3x post the acquisition of LafargeHolcim' heavyside assets in 2015. This stood at 1.7x at December 2016 and is forecast to decline to 1.2x by 2017 year-end due to strong cash generation, impressive cash conversion of net income and continued asset disposals of non core assets in the business. We feel initial optimism relating to an uptick in infrastructure spending in the US on the back of Trump's planned growth has now been fully reversed at this point and has been reflected in the recent 9% selloff in its share price over the past month. Numerous minor support levels sit below current market prices with key support coming in a €31. Therefore any plans to increase its spending plans or reduce corporate tax rate would be an incremental positive for the stock. The stock currently trades at 17.6x FY17e earnings, which drops to 13.1x by FY19 assuming consensus earnings growth forecasts of 18% for 2017 and 16% for 2018 are met. We don't feel any Trump related plans are incorporated in analyst's future earnings forecasts and we are positive on the fundamentals on the Group own merits. The stock offers a 2.1% dividend yield and its consensus 12 month target price is at €35.92, which is 13% above current trading prices.

Stephen Hall, CFA | Investment Analyst

Kingspan (Outperform) - Reiterate outperform rating on Kingspan

Closing Price - €30.75

News

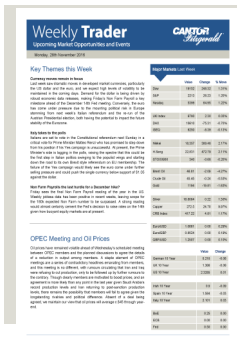
Kingspan is currently sitting at the base of an upward sloping trend channel which began back in November 2016, which is when we added Kingspan to the Core Portfolio and it has been a significant contributor to its outperformance in 2017. Technically, its share price has posted a series of higher highs, and higher lows over the past months. It is currently trading 7% below all-time highs, and we expect any retracements/ pullbacks to be relatively shallow in nature. We remain positive on the fundamental outlook for the Group over a multi-year horizon and it remains a buy on dips in our view. Penetration levels of Kingspan's key products are set to structurally increase due to regulatory changes and environmental awareness of the construction sector for many years to come. Company earnings are due to benefit from structural and cyclical tailwinds over the coming years. In our opinion, Kingspan has made great strides towards becoming the world's leading provider of low energy buildings through sector leading innovation and through effective capital allocation by senior management. The Group continues to expand its geographical footprint too, and is in the early stages of growth in Asia which could be a big expansion opportunity. When management released Q1/17 results, it said order backlog overall points towards a solid H1/17. This set of H1/17 results are due to be released on the 18th August.

Comment

The Group's Net Debt/ EBITDA position is expected to fall to 0.6x by year-end which leaves it with significant headroom for further bolt-on acquisitions, similar to the very successful Vicwest and Joris Ide acquisitions in recent years. Such an announcement would be a near term catalyst in our opinion, however there is no visibility on the timing of such a deal. 1st key support comes in at €29, 6% below current levels, however we're not convinced it will re-test this level in the near term, and would be comfortable adding to positions at current market prices. The stock currently trades at 19.3x times FY17e earnings which drops down to 16.7x by 2019, assuming consensus earnings growth of 7.2% in 2018 and 7.8% in 2019 is achieved. These forwards earnings growth projections appear modest and quite achievable in our opinion.

Stephen Hall, CFA | Investment Analyst

Cantor Publications & Resources



Weekly Trader

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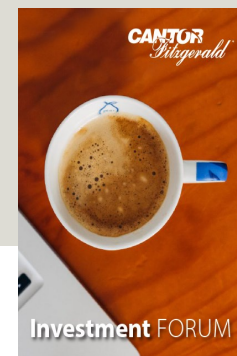
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

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

CRH: CRH public limited company is a global building materials group. The Company manufactures and distributes a range of construction products such as heavy materials and elements to construct the frame and value-added exterior products

Historical Recommendation

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

CRH: We have added CRH to our core portfolio on the 01/01/16, with a recommendation of Outperform

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