

Wednesday, 14th June 2017

Morning Round Up

Increasing applications for German citizenship by British residents.

A record number of Britons took German citizenship in 2016 as the U.K. voted to leave the European Union, according to the German Federal Statistics Office. German authorities granted citizenship to 2,865 U.K. nationals last year, compared with about 600 in 2015, the agency said in a statement Tuesday. Only 3.9 percent of Britons who have lived in Germany for 10 years or longer have taken on local citizenship, according to the data, suggesting that further increases may lie ahead as the U.K. exits the EU. With the clock ticking to EU exit in March 2019, the near fivefold increase in those rushing for a German passport show that many Britons are unwilling to wait and see what kind of Brexit the U.K. eventually pulls off.

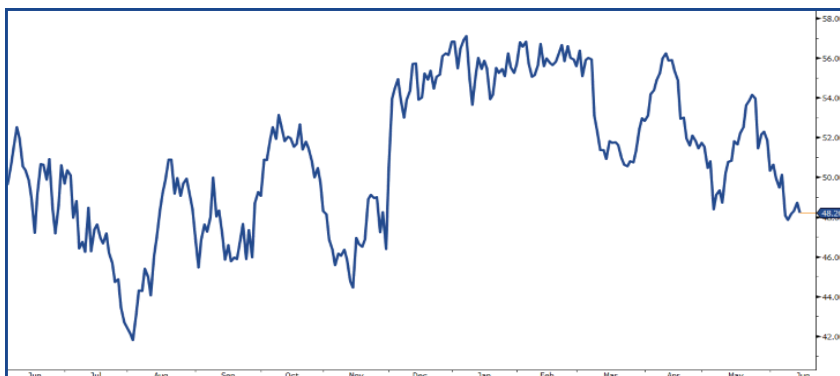
39 states affected by Russian cyber attacks on US election systems

Russia's cyberattack on the U.S. electoral system before Donald Trump's election was far more widespread than has been publicly revealed, including incursions into voter databases and software systems in almost twice as many states as previously reported. In Illinois, investigators found evidence that cyber intruders tried to delete or alter voter data. The hackers accessed software designed to be used by poll workers on Election Day, and in at least one state accessed a campaign finance database. In all, the Russian hackers hit systems in a total of 39 states. Although they gained access the hackers did not disrupt the vote. The Obama administration believed that the Russians were possibly preparing to delete voter registration information or slow vote tallying in order to undermine confidence in the election. Russian officials have publicly denied any role in cyber attacks connected to the U.S. elections. President Vladimir Putin said in recent comments to reporters that criminals inside the country could have been involved without having been sanctioned by the Russian government.

OPEC agreement fails to impress

All eyes turned to what's happening in the U.S. market after OPEC's deal to limit output failed to impress investors as it didn't include deeper cuts, additional allied countries or an exit plan. The report that American supplies of crude and products jumped the most since 2008 came as the last nail in the coffin. Oil futures after reaching \$52 a barrel in the run-up to the group's meeting in Vienna last month plunged to near \$45 last week and edged up to settle at \$46.08 on Monday. Not only did supplies in the U.S. surge in last week's Energy Information Administration report, but the agency also forecasts U.S. crude output will average more than 10 million barrels a day next year for the first time.

Oil - price chart



Key Upcoming Events

13/06/17 - Fed Meeting

Market View

US Tech stocks recovered yesterday which saw the S&P close at another new all time high. This positive momentum continued into Asia overnight and Europe this morning. The American Petroleum Institute (API) data showed a build in US oil inventories yesterday which weighed on oil prices further, with WTI oil prices back below \$46 this morning. The market will be paying close attention to the Energy Information Administration (EIA) oil data today for an official reading. Key focus is the US Fed this evening where the market is fully priced for a further 25bps rate hike.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21328	92.80	0.44%	7.92%
S&P	2440	10.96	0.45%	9.00%
Nasdaq	6220	44.90	0.73%	15.55%

Nikkei	19,884	-15.23	-0.08%	4.02%
Hang Seng	25,822	-30.02	-0.12%	17.37%

Brent Oil	48.41	-0.31	-0.64%	-14.80%
WTI Oil	46.11	-0.35	-0.75%	-14.17%
Gold	1268	1.26	0.10%	10.48%

€/£	1.1219	0.0008	0.07%	6.67%
€/£	0.8771	-0.0018	-0.21%	2.77%
£/\$	1.2791	0.0037	0.29%	3.65%

	Yield	Change
German 10 Year	0.26%	-0.002%
UK 10 Year	1.03%	-0.001%
US 10 Year	2.20%	-0.007%

Irish 10 Year	0.70%	0.008%
Spain 10 Year	1.44%	0.002%
Italy 10 Year	1.98%	-0.004%

Smurfit (Outperform) - Retesting big resistance level, confident it can break through

Closing Price - €26.42

News

Smurfit closed right below key resistance yesterday evening at €26.49, which is a resistance level that has held on several occasions going back the past 18 months. However, we feel positive momentum can take its share price higher on the back of recent price increase announcements which are to be passed onto customers in an effort to protect operating margins as a result of rising OCC input costs. We remain positive on the outlook for European equities and cyclical stocks into year-end given the continued strengthening of underlying economic fundamentals in Europe which Smurfit's performance is closely tied to. In terms of price action, Smurfit's share price recorded a very strong rally between October 2016 – February 2017 driven by signs of pricing increases, improving economic outlook in Europe, its inclusion to the UK's premier stock index and solid FY16 results. On the first trading day of 2017 (3rd January) we recommended adding to long positions, and the stock is up 21% ytd in 2017 as of last night.

Comment

Underlying demand for Smurfit's corrugated products remains strong while supply remains relatively tight which should help create a positive environment to push through price increases. Smurfit is the largest supplier of Kraftliner in Europe and announced a €50 a tonne price increase from July 2017. The consensus 12 month analyst target price is €29.09, offering investors 10.2% if achieved which we view as an achievable target within a 6 to 12 month time horizon. From a valuation perspective it is currently trading at 12.8x FY17 earnings, which is still an unjustified 17% valuation discount relative to its closest peers Mondi at 15.3x. In our opinion we feel Smurfit can maintain a 14x to 15x 1 year forward P/E valuation multiple in the near future. Which suggests a further 9.4% - 17% upside potential if this forward valuation range is reached.

Stephen Hall, CFA | Investment Analyst

Greencore (Outperform) - Meeting with Senior Management

Closing Price - £2.42

News

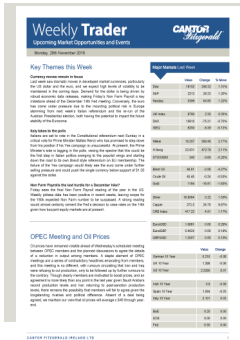
Yesterday we hosted Greencore's CFO, Eoin Tonge and Head of Investor Relations, Jack Gorman in our offices in Dublin. The discussion centred around Greencore's long term organic growth potential in the UK, the efforts the Group has put in place to protect operating margins, its growth outlook in the US, how the integration of its recently acquired Peacock Foods business is performing and the deleveraging potential of the Group. The meeting reinforced our conviction levels that Greencore is undervalued relative to its organic growth potential, and the attractive Food-To-Go sub segment of food sector it operates in. We feel investors are still in wait in see mode with regards to the US business and are waiting for evidence of operating performance in the US. If management can deliver in the US this will build confidence among investors and should lead to positive re-rating in the stock.

Comment

Tyson Foods recent acquisition of Advanced Pierre has been a headwind towards sentiment in Greencore in recent weeks. However, management appeared confident this acquisition wouldn't impact supply agreements between Greencore's newly acquired Peacock Foods has with Tyson. Management said it was in discussion with several of its key Consumer Packaged Goods (CPG) customers in the US about possibly expanding developing new fresh produce given Greencore's existing capabilities in this area and said the trend of big CPG companies continuing to increase their level of outsourcing looks set to continue. In the UK, a key driver of growth will be continued strong category growth of the FTG space, and Greencore's customer base such as M&S, and Sainsburys allocating more floor space to FTG products and simultaneously opening more convenient store formats which centre around FTG. Management was confident leveraged peaked at H1/17 with a Net Debt/ EBITDA ratio of 2.7x and forecasts this ratio reducing by roughly 0.5x a year into the future. Greencore trades at 15.4x FY17e earnings which is a steep valuation discount to the broader Euro Stoxx 600 Food and Beverage Index at 22x earning. We reiterate our Outperform rating on the back of this meeting and are confident in the continued growth potential of the business. Its consensus 12 month target price is GBp 303.78, which is achievable in our opinion. The next possible catalyst is its Capital Markets Day on the 20th June 2017, where we see potential for an upward revision to cost synergies initially announced in the equity prospectus at the time of acquisition.

Stephen Hall, CFA | Investment Analyst

Cantor Publications & Resources



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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.

Greencore: Greencore Group plc manufactures and distributes a diverse range of primary foods and related products, food ingredients and prepared foods to the consumer and industrial sectors.

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

Greencore: We have upgraded our recommendation for Greencore, to Outperform from Not Rated, as of 25/11/2015.

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