Weekly Trader

Upcoming Market Opportunities and Events

CANTOR Fitzgerald

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Key Themes this Week

EURGBP

Sterling held up well in the immediate aftermath of the referendum as the UK economy proved resilient. In 2017 at various points sterling has alternated between weakness and strength vs most major currencies as investors digested the continuous stream of Brexit related news. However, from a 12 month perspective our call was for sterling weakness with EURGBP moving to £0.90. Over the last month or so this is the direction it is going and is now pricing at £0.878. The recent weakness has been driven by Mrs May losing her majority along with uncertainty regarding Brexit negotiations. Mrs May is now politically vulnerable and Europe has gained the upper hand in the negotiations. This may ultimately lead towards a softer Brexit which would prove beneficial for sterling. However, for the remainder of the year we believe uncertainty regarding Brexit, the economy and BOE policy should sterling continue to remain weak against most major currencies.

UK Economic Update

Many forecasts, including both the UK governments' and Bank of England's own forecasts were proven wrong with UK economic data holding up very well in the 6 months following on the referendum. In fact most major data points surprised to the upside as consumer & business sentiment and spending held up well and in some cases increased. This was in contrast to the Doomsday economic prediction preceding the vote. However, recently UK economic data has recently begun to soften as weak sterling begins to bite at consumers' appetites. In all likelihood UK consumers are facing into a period of rising inflation, weaker purchasing power and economic contraction. This probability had been heightened by the prospect of a hard Brexit which may not now be as likely with Theresa may politically vulnerable. Even still the OECD held its 2018 UK GDP growth constant at 1% while upgrading all other European nations bar Italy.

Oil

It would appear OPEC just cannot catch a break. One month exactly after it agreed to extend production cuts to the end of year, oil is now trading 15.4% lower at $43.57 a barrel. This is being driven by Libya & Nigeria (who are both exempt from the deal) increasing production and US shale producers ramping up the rate of drilling substantially recently. The majority of US shale is now profitable at sub-$50 oil so any OPEC hopes of crushing this production would appear dashed in the short term. Markets are contributing to this rout with short positions on oil rapidly increasing. If this continues it might be possible to see oil go below $40 a barrel in the short term. What is certain is that oil is unlikely to get above $55, a level seen as important in terms of higher oil prices in the medium term.

Stock Coverage

This week we cover off on names on our coverage list that have significant UK exposure as it is the 1 year anniversary of the Brexit referendum. We also detail our view on the recent AIB IPO and future outlook,

Major Markets Last Week

	Value	Change	% Move
Dow	21395	10.48	0.05%
S&P	2438	5.15	0.21%
Nasdaq	6265	113.49	1.84%
UK Index	7460	-64.22	-0.85%
DAX	12802	-87.12	-0.68%
ISEQ	7014	-48.94	-0.69%
Nikkei	20,153	85.60	0.43%
H.Seng	25,858	-66.40	-0.26%
STOXX600	390	-2.10	-0.54%
Brent Oil	46.14	-0.77	-1.64%
Crude Oil	43.53	-0.67	-1.52%
Gold	1244	0.55	0.04%
Silver	16.4854	-0.02	-0.11%
Copper	265.05	4.45	1.71%
CRB Index	439.59	-3.32	-0.75%
Euro/USD	1.1195	0.00	0.41%
Euro/GBP	0.8784	0.00	0.36%
GBP/USD	1.2745	0.00	0.06%

	Value	Change
German 10 Year	0.248	-0.03
UK 10 Year	1.044	0.01
US 10 Year	2.1509	-0.04
Irish 10 Year	0.637	-0.05
Spain 10 Year	1.392	-0.06
Italy 10 Year	1.908	-0.05
BoE	0.25	0.00
ECB	0.00	0.00
Fed	1.25	0.00

Brexit - 1 year on

Cantor Fitzgerald Research Team

Last week marked 1 year since the UK voted to leave the EU in the so called "Brexit" referendum. We believe it is prescient to provide an update on the names we cover that have significant UK exposure, especially considering the recent escalation in negotiations. Below we have outlined how these stocks have performed since the referendum and our outlook over the next 12 months.

Bank of Ireland

Was one of the most exposed stocks to Brexit risks within our portfolio coverage given that 40% of its loan book is located in the UK primarily through mortgage lending in the UK. Its share price lost 42% in the aftermath from the close on the 23rd June 2016 to the low recorded in August 2016. It has recovered 44% from this low but still remains off 16% off its pre-Brexit closing level at 27.2c which also happens to be our 12 month target price. Last Friday's equity sale in AIB and continued Brexit uncertainty have weighed on its share price in recent weeks, however we maintain our positive outlook given our bullish stance on the Irish banking sector in general. BKIR currently trades at 0.81x FY17e Price/ Book which is an unjustified 11% discount to the broader at 0.90x. We are looking for key support at 22.3c to hold once again in the near term and this valuation discount to reverse.

Lloyds

Lloyds' share price sold off 34% in the immediate aftermath of the Brexit referendum. However, its share price staged an impressive recovery over the past 12 months and in May 2017 actually traded above its pre-Brexit closing level of 72.15p as the UK Government fully disposed of its holding within that time frame. The Group also reported two impressive sets of results at FY16 and Q1/17 which management upwardly revised most of its financial guidance metrics which boosted sentiment. However, over the past month since the recent UK General Election ended in a hung parliament, and as the reality of Brexit negotiations set it, sentiment towards the bank has turned negative once again with a 10% retracement over the past 4 weeks. Unfortunately, depending on how the Brexit negotiations unfold over the coming weeks and months will ultimately dictate investor sentiment towards the bank. The underlying fundamentals of Lloyds are very strong with a healthy capital position and an attractive dividend yield of 5.7% for 2017. We maintain our Outperform outlook, however political developments will have a greater influence on its underlying share price more so than underlying fundamentals of the Group over the coming months.

CRH

CRH sold off post the referendum by approx. 14.5% to €23.31. Though an internationally diversified business, the UK remains an important market for CRH particularly in the tarmac and heavy-side sectors. Since then the share price has recovered substantially rising 37.98% to €32.17. This was driven in part by the promise of a Trump infrastructure program post his election win in November. Recently those expectations have been put back till 2018 with the result that the cement sector has traded laterally and has not been helped by some weaker than expected US housing data. However, we remain positive from a 12 month perspective as cement volumes continue to tick up in the US and recover in Europe. One side effect of Trump policy disappointment has been to remove the premium from CRH valuation which ensures it is now cheaper than the sector average with a 2017 estimated P/E of 17.7x vs 21.9x.

Grafton Group

Grafton Group sold off 38%% in the immediate aftermath of the referendum as investors' fears for UK economic growth and its impact on the UK construction sector. Surprisingly the UK construction sector held up very well for the remainder of the year. Grafton rallied back to a May high of £7.945 representing a gain of 80% since the Brexit referendum low. Grafton's diversified revenue exposure to Ireland, Holland and Belgium has helped it outperform other builder suppliers in the UK as investors believe these revenue streams should help weather any Brexit related headwinds. As mentioned UK economic data has held up well in the past year. However there has been some deterioration of late which may gather pace now that negotiations have kicked off. The UK is facing into rising inflation with falling wages and consumer demand. This could result in stagflation, limit the BOE's ability to combat inflation and ultimately have a significant detrimental effect on consumer demand and the UK housing market. In this scenario we would expect Grafton to outperform its peers but still underperform the wider market as the sector suffers. It would appear this has already started and Grafton has fallen about 8% since June 1st.

Brexit - 1 year on

Cantor Fitzgerald Research Team

Kerry

Kerry's share price experienced and slow and steady selloff post Brexit eventually losing 25% of it value before bottoming in November 2016. In fact, we added Kerry to our Core Portfolio at the lowest point of the year last year, and its share price recovered 32% between November 2016 to May 2017 which effectively brought its back to its pre-Brexit closing level. We felt the de-rating in Kerry's share price was too severe at the time given the underlying strength of its business model. A positive Q3/16 and FY16 results update boosted sentiment during this period, helping its share price recover. Kerry's exposure to the UK comes from its Consumer Foods business which is a lower margin and lower growth than Kerry's Taste and Nutrition business which accounts for the vast majority of profits. We are positive on the long term growth prospects as it is well positioned in the food sector to benefit from a shift in consumer tastes towards healthier and cleaner label foods which plays into Kerry's hands.

Greencore

Greencore's share price suffered a similar fate selling off 28% between June 2016 to January 2017. However, the business did make a transformational acquisition during in December 2016 in Peacock Foods in US, then uncertainty surrounding the acquisition of Advanced Pierre by Tyson Foods raised additional uncertainty. Its share price has recovered 16% off post Brexit lows, however we are confident in the underlying organic prospect of its US and UK businesses and expect to see a steady re-rating in its valuations over the coming months.

DCC

DCC has moved on from its days of being an Irish and UK centric business. However the UK market remains an important region for them, especially in the Retail & Oil, LPG and Technology businesses. Post the referendum DCC's share price fell 7.97% to £60.13. It was hit particularly hard in the Tech sector with sales & revenue declining. However the other parts of the business performed well and the share price rebounded from its June 2016 low to a May 2017 high of £75.40. This represented a gain of 25.27%. DCC was aided in its recovery by continuing good performance in other markets mainly continental Europe which this year became its primary revenue source for the first time in the company's history. It was further helped by a smart acquisitive strategy by management including its first foray into Asia. We would expect its recent good European outperformance to continue and management to continues it accretive acquisitions resulting in consistent EPS upgrades.

Ryanair

Ryanair immediately sold off 23% in the aftermath of Brexit. However, we had been advising clients to take advantage of this weakness given that Ryanair has significant flexibility to redeploy its fleet elsewhere in Europe due to the 85 bases it has across the continent and its significant competitive advantage on costs and fares. Ryanair's share price has rallied a massive 75% off its post Brexit low, and its share price has underwent a significant positive valuation re-rating in this time frame as demand in Europe strengthens, and as it announced its feeder flight plans. We think Ryanair is the long term structural winner in the European low cost carrier sector and expect it to continue to capture market share from less efficient operators over the coming years.

ICG

ICG was equally one of the most exposed stocks in our coverage universe to Brexit related risks given that the vast majority of revenues are generated from transporting RoRo freight, cars and passengers between Ireland and the UK. As Brexit related risks diminished over the next several months ICG enjoyed a positive re-rating in its stock and its share price recovered all of its Brexit related losses in May 2017. Since then, renewed UK political uncertainty and data showing tourism between UK and Ireland has softened due to a weaker Pound, ICG's share price has weakened once again.

Kingspan

Kingspan's share price sold off 29% in the immediate Brexit aftermath. We added Kingspan to our Core Portfolio last November which proved to be excellent timing as the stock rallied 52% over the next six months within a very well defined upward slopping trend channel. Over the past 6 weeks, its share price has experienced a period of profit taking, however we recommend taking advantage of any weakness in its share price and view €29 as a big support level which we expect to hold. 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 and 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.

AIB - Positive first day of trading

Closing Price: €4.65

Stephen Hall, CFA | Investment Analyst

News

Last Friday, the Department of Finance set the final price for the AIB IPO at €4.40, and its share price ultimately finished the 5.5% higher at €4.65. The Irish Government sold roughly 679 million shares (25% of shares outstanding) at €4.40 a share raising €3 billion for the Irish State before fees and commissions payable. Deutsche Bank acted as the lead underwriter has the right to exercise an "Overallotment Option", meaning it could take down an additional 102 million shares representing 15% of the Base Offer. It will likely do so if institutional investor demand is strong over the next 30 days. If this option is exercised, then the Irish Government will remain the majority shareholder in AIB with a 71.2% ownership post this equity sale. It intends to gradually sell down its remaining stake over the next decade, however no indicative timeline has been disclosed for this remaining balance to be sold. The free float in AIB could be as highs as 28.7% compared to 25% in Permanent TSB and 86% in Bank of Ireland.

Comment

The Department of Finance has allocated 10% of the issue to retail investors who participated in the deal. Retail investors who ordered between €10,000 to €50,000 will receive a full allocation. However, for larger orders above €50,000 each additional €1 order will only be filled approximately 53c on the Euro. For example a €100,000 offer will be filled at €76,400. Given that we have a balance outlook on the Irish banking sector and specifically for clients who did not get a full allocation we recommend investing the remaining unallocated position in Bank of Ireland (BKIR) which has underwent a de-rating in recent weeks as institutional investors have sold down existing holdings in BKIR to free up capital to gain exposure to AIB .

Focusing on AIB, we are positive on the underlying fundamentals of the Group and forecast most key financial metrics trending in the right direction over our investment horizon of 2017 to 2019. AIB reported a Net Interest Margin (NIM) of 2.46% in Q1/17 which we see averaging 2.48% in 2017, rising to 2.51% in 2018 and 2.53% in 2019 supported by stable asset yields, reduced cost of funding, NAMA Senior Bond maturities, on-going redemptions in its tracker mortgage book, and new loan growth. However, its AFS book will be a near term drag on NIM over the next 3 years.

We are positive on the loan growth prospects for AIB over the medium term. Irish households, corporates and SMEs have gone through a multi-year deleveraging cycle since the financial crisis. With Irish consumer and business sentiment readings close to multi-year highs, and their respective balance sheets in a much healthier position. We therefore anticipate a gradual recovery in mortgage, personal, SME and corporate lending over our investment horizon which leads to a positive inflection point in AIB's net loan balance in 2017. We forecast total new lending by AIB could grow from €8.7bn seen in 2016 to approximately €12.5bn by 2019 as it grows lending across mortgage, personal, SME and corporate lending while new lending in the UK remains close to €2bn per annum. We are also positive on the outlook for new housing completions in Ireland which should steadily rise over the coming years specifically supporting mortgage lending growth.

We forecast that the Group will generate organic capital in the region of between 165bps - 180bps per annum between 2017 to 2019 and this is before the utilisation of AIB's €3bn of Deferred Tax Assets which should be utilised over approximately the next 20 years. Given the strength of AIB's capital position (CET1 ratio at 16.0% at Q1/17) we think the Group will have a dividend pay-out ratio of 35% in 2017, rising to 45% in 2018 and 55% in 2019 of sustainable earnings. This translates into a DPS of 12.3c for 2017, 14.9c for 2018 and 18.3c in 2019 which is a dividend yield of 2.7%, 3.2% and 3.9% over the next three years based off last Friday's closing price of €4.64 a share.

We forecast AIB will a FL CET1 capital ratio of 19.1% even after paying out 225bps in dividend over that time frame. By our forecasts AIB will have a significant excess capital position by 2019 of 6.1%and if the Group is successful in reducing its Non-Performing Exposure (NPEs) balance, then we believe there is potential for AIB to distribute excess capital to shareholders in the form of a special dividend.

We raised our outlook on AIB to Outperform from Underperform last Friday.

From the News - Monday's Headlines

- **Europe** Rome sets aside €17bn to wind down failing lenders
- **US** Bank stress test bring to light leverage metrics
- **UK** Anit-Brexit MPs push for "soft" option
- **Oil** Slides below $45 for the first time in 2017

Current Stock Trading News

From a market trading perspective we are long Green REIT, Inditex, Royal Dutch Shell, Glanbia, Greencore and Kingspan and the positions remain in the money.

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	**Corporate**	**Corporate**	**Corporate**	**Corporate**
NA	NA	Tullow Oil Trading Statement. AIG AGM.	IAG ex div	NA
Economic	**Economic**	**Economic**	**Economic**	**Economic**
US Durable Goods	UK Retail Sales GE Retail Sales	US Pending Home Sales UK House Price Index	GE CPI	CH Manf. PMI UK GDP YoY EC CPI YoY US PCE Data

Upcoming Events

03/07/2017 NA

04/07/2017 NA

05/07/2017 NA

06/07/2017 Hibernia REIT ex div.

07/07/2017 NA

03/07/2017 CH Caixin PMI, EC Manf. PMI, US Manf. PMI

04/07/2017 UK Construction PMI, EC PPI

05/07/2017 CH Caixin Services PMI, EC PMI, FOMC Mins

06/07/2017 US Services PMI

07/07/2017 US NFP

Cantor in The Media

- AIB's IPO attracts strong demand—RTE.ie — View clip - Research Analyst Stephen Hall
- Shares in AIB rise State sells 25pc stake—Independent—View clip - Research Analyst Stephen Hall

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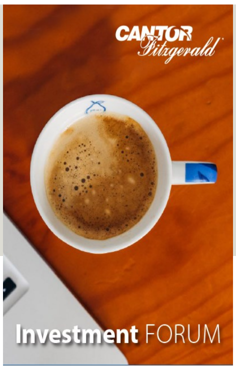

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Bank of Ireland: Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom

AIB: Allied Irish Banks plc (AIB) attracts deposits and offers commercial banking services.

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe. **ICG:** Irish Continental Group plc markets holiday packages and provides passenger transport, roll-on and roll-off freight transport, and container lift on and lift-off freight services between Ireland, the United Kingdom and Continental Europe.

Lloyds: Lloyds Banking Group plc, through subsidiaries and associated companies, offers a range of banking and financial services. The Company provides retail banking, mortgages, pensions, asset management, insurance services, corporate banking, and treasury services.

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.

Kerry: Kerry Group PLC is a major international food corporation. The Group develops, manufactures, and delivers innovative taste solutions and nutritional and functional ingredients.

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

DCC: DCC is a sales, marketing, distribution and business support services Group. The Group operates in the following sectors, energy, IT entertainment products, healthcare, and environmental services. DCC's strategy is to grow a sustainable, diversified business.

Grafton Group: Grafton Group PLC manufactures and retails building supplies.

Historical Record of recommendation

Bank of Ireland: We have reinstated an outperform rating on Bank of Ireland as of 13/07/2016

AIB: We moved our rating from under perform to out perform on the 23/06/2017

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

ICG: We have been positive on ICG's outlook, since 07/03/13 and no change has been made to our recommendation since then.

Lloyds: We have been positive on Core Portfolio stock, Lloyds, since 01/03/14 and no change has been made to our recommendation since.

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

Kerry: We added Kerry to our Core Portfolio on the 16/11/2016 with an Outperform rating.

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

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated.

Grafton Group: We have placed Grafton Under Review having been positive since 07/03/13 .

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