

Wednesday, 9th August 2017

Morning Round Up

Famous bond investor, Jeffery Gundlach reduced exposure to junk bonds

Famous bond investor, Jeffery Gundlach, the CEO of DoubleLine Capital said risky assets such as junk bonds and emerging-market debt are overvalued. He is repositioning clients money away from higher risk junk bonds towards higher quality credits which are less sensitivity to rising interest rates. He is concerned junk bonds and EM debt are overvalued. Mr Gundlach said "if you're waiting for the catalyst to present itself, you're going to be selling at a lower price". Volatility is at history lows levels, and Mr Gundlach that volatility is set to increase, however he doesn't anticipate a recession within the next 6 months.

Republicans discuss tax changes

The US House and Senate are open to discussing a hybrid approach to tax reform which would combine lasting tax code changes which would deter US corporates shifting profits overseas. Republicans are still struggling to make any progress on a tax overhaul that doesn't inflation the already bloated federal deficit. A hybrid approach including permanent and temporary tax changes could be the solution. However, some critics caution that temporary tax changes wouldn't spur economic growth in the US.

US Credit Card debt sets new record

US credit card debt grew to \$1.02 trillion surpassing record levels last recorded in 2008. Large US financial institutions, such as JP Morgan and Citigroup have increased exposed to credit card lending which offers attractive returns in a low yield environment. After the 2008 financial crisis, US banks had to write off c. \$100bn of bad credit card loans.

North Korea tensions escalate

Overnight, North Korea leader King Jong Un ordered his military to examine a plan for a missile strike on the U.S. military base on Guam, making an unusually explicit threat to attack the U.S. This threat came after President Trump cautioned North Korea to not "make any more threats" to the U.S., warning of a response of "fire and fury like the world has never seen." This geopolitical risk has caused a selloff in global risk assets with your typical safe haven assets such as gold and Japanese Yen catching a bid. This is the biggest near term risk for markets to navigate through in a extremely low volatile environment.

Gold USD - price chart



Source: Bloomberg, CF Research August 2017

Key Upcoming Events

24/08/17 Jackson Hole

Market View

Asian markets were down overnight as tensions on the Korean peninsula were ratcheted up. Mr Trump stated that the US must stand ready to strike North Korea. North Korea in response stated it was looking at the possibility of a strike on a US naval base on Guam. US markets sold off into the close on the news as well. Elsewhere the euro rally took a breather with EURUSD dropping below 1.18 after some better than expected jobs numbers in the US. Market focus will be on a slew of US retain earnings over the next few days to see if the US consumptions remains healthy.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22085	-33.08	-0.15%	11.75%
S&P	2475	-5.99	-0.24%	10.55%
Nasdaq	6370	-13.31	-0.21%	18.34%

Nikkei	19,739	-257.30	-1.29%	3.27%
Hang Seng	27,786	-68.76	-0.25%	26.30%

Brent Oil	52.01	-0.13	-0.25%	-8.47%
WTI Oil	49.14	-0.03	-0.06%	-8.53%
Gold	1268	7.29	0.58%	10.52%

€/\$	1.1752	0.0000	0.00%	11.74%
€/£	0.9030	-0.0016	-0.17%	5.80%
£/\$	1.3014	0.0022	0.17%	5.46%

	Yield	Change
German 10 Year	0.46%	-0.012%
UK 10 Year	1.13%	-0.023%
US 10 Year	2.25%	-0.007%

Irish 10 Year	0.77%	-0.008%
Spain 10 Year	1.44%	-0.013%
Italy 10 Year	2.00%	-0.002%

Source: Bloomberg, CF Research August 2017

AIB - Interview with Colin Hunt show great ambition

Closing Price - €4.84

News

The Sunday Business Post newspaper published a detailed interview with Colin Hunt, AIB's head of Wholesale, Institutional and Corporate Banking division. This division account for 15% of AIB's total loan book, but account for 29% of new lending, meaning this division is growing in importance. In this interview, Mr Hunt revealed AIB's ambitions to be the leading supplier of capital to Irish corporates. The division is looking to diversify revenues by launching a new mezzanine finance team and a capital development team. The Group is looking to take small equity positions in both listed and unlisted companies. Earlier in the month, AIB took a 5.6% equity stake in the newly listed Irish renewable energy company, Greencoat. The growth appetite of the Group is increasing, as the bank is now open to investing in larger multi-billion infrastructure projects backed by state-revenues.

Comment

AIB has ambitions to become the leading financier of Ireland's renewable energy sector. This could be an avenue for lending growth as the Irish government needs to build new renewable energy projects to meet EU mandates which fall due between 2020 to 2030. AIB is building up expertise in the area of on and off-shore wind farms, solar, biomass energy. This area offers attractive risk adjusted returns for the group. Mr Hunt said the Irish government needs to have a renewed focus on capital investment, on projects that will underpin our long term competitiveness and make Ireland a more attractive place to work, live and invest. If the government fails to invest then Ireland could lose out in terms of competitiveness and as a location for FDI". On the recent equity sale by the Irish government, Mr Hunt said "the IPO was a major milestone on the bank's return to health". AIB is currently conducting research which examines the role of home builders, funders and government in addressing the housing shortfall which should be published this quarter. He said "the bank is open to financing builders it worked with pre-crash, and who had loans transferred to NAMA". In Mr Hunt's opinion it is the number one economic, social and political issue the country needs to address. Relationships with such developers are necessary to increase the supply of new homes in Ireland. In our opinion, AIB's ambition to grow lending should bode well for earnings growth. We maintain our 12 month target price at €5.05 and believe it is now a sustainable dividend investment case. However, given that it trades at 1.0x FY17e Price/ Book and that its closest peer, Bank of Ireland trades at 0.85x P/B we see greater upside potential for BOI in the near term.

Stephen Hall, CFA | Investment Analyst

Paddy Power Betfair - Weak results & CEO departure

Closing Price - €80.20

News

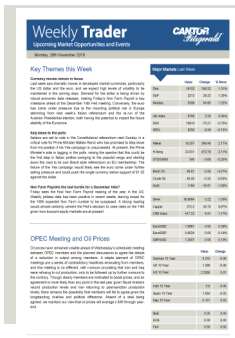
Paddy Power Betfair had release H1/17 results yesterday that were weak across the board. EPS came in at £1.81 which missed street estimates of £2.11. Revenue of £827m also missed consensus estimates of £843m. Operating profit of £180m vs est. £231mn was another miss. EBITDA was up 21% to £220m but fell short of estimates of £227m. From a positive perspective management maintained FY EBITDA guidance at £445m - £465m. Importantly, online growth fell to 10% which is now below peers in the sector. Margin also fell, impacted by customer friendly results in Q2, mainly driven by soccer. Gaming revenue, despite a recovery in the Q1, continues to disappoint.

Comment

These results were weak across the board. We have had Paddy Power on Underperform since January of this year. Since then it has declined 23.5%. We had recently been guiding investors for some potential loss of market share due to management's focus on completing the platform integration which has resulted in less content being produced. This appears to be happening with Paddy's peers posting higher online growth rates. Separately, CEO Breon Corcoran announced his departure the day before the results were released. This was an unexpected move and the stock sold off 5% on the day. Mr Breon had quite a good track record at both Paddy Power & Betfair & was expected to oversee the platform integration to completion (management has guided for it to be done by the end of 2017). He was also expected to manage the new business model for a long time to come. It was down a further 3.6% yesterday on the back of these weak results. The overall sector is facing into regulatory headwinds in the second half of the year. This coupled with the now obvious stock specific issues evident at Paddy leads us to believe risks are still weighed to the downside. Paddy also continues to trade at a substantial premium to its peers. We maintain our Underperform.

Will Heffernan | Investment Analyst

Cantor Publications & Resources



Weekly Trader

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Issuer Descriptions: (Source: Bloomberg)

AIB: Allied Irish Banks plc (AIB) attracts deposits and offers commercial banking services. The Bank offers mortgage, automobile, business, plant and equipment purchase, and lease financing loans, investment banking, securities brokerage, asset management and treasury services, and discounts invoices. AIB operates in Ireland, the United Kingdom, and the United States

Paddy Power Betfair: Paddy Power Betfair Public Limited Company is a betting and gaming company. The Company provides online betting and gaming products.

Historical Recommendation

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

Paddy Power Betfair: We have changed our outlook on Paddy Power Betfair to "Market Perform" from "Outperform" as of 31/01/2017

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