Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

Thursday, 10 August 2017

Morning Round Up

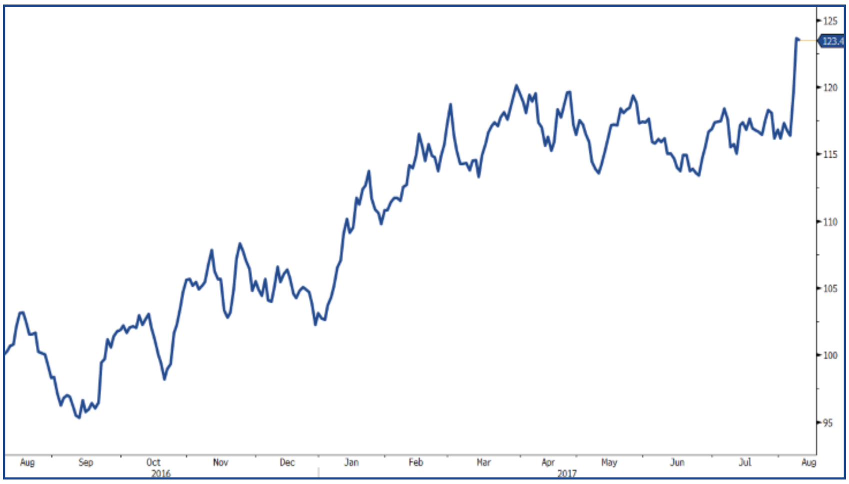
August - Holiday Season

Up until the recent sell-off sparked by the North Korean debacle equity markets were going through a period of unparalleled calm. The 10 day rolling volatility of the S&P500 dipped to a five decade low on the 7th August, registering at 2.43%, the lowest level since February 14th 1969. To put that in context Richard Nixon was still the US President at the time. 30 and 90 day volatility measures also came close to two decade lows. An August slowdown is not a new thing due to staff taking holidays. However, this lack of volatility is definitely a step up. Low volatility does not automatically equate to investor complacency but historically does tend to precede a tick up in volatility. The recent North Korean situation may just be the spark that the market needed. It should also be noted that the global strategy team from several major houses have recently issued strategy updates guiding investors that a sell-off may be in the offing. Recent weakness in US junk bonds and declines in equity risk premium were given among the reasons but undoubtedly this bout of exceptionally low volatility has also played its part.

Metal Prices – Downside risks remain

We remain bearish on miners as we believe the recent up-tick in metal prices has been driven by Chinese government policy and is unlikely to last. In advance of the Communist Party Congress in Autumn, held every five years, the Chinese authorities have been taking action that has been supportive of certain industries. This includes monetary stimulus into the financial sector and reducing capacity in steel and aluminium industries. These actions have been supportive of metal prices and have helped miners make gains in the process. The question is whether or not these supply side reforms are for the longer term. In our belief they may very well be but prices should retrace in the second half of the year anyway. Chinese PPI is running at 5.5%, a level we believe is unsustainable. The Chinese construction market, a large factor in the demand for steel, cement, copper and aluminium, is expected to decline post congress. Lastly, the crackdown on financial speculation and intermediary lending is also expected to resume in the second half of the year. This should impact financing for corporates and construction companies which will ultimately impact demand for metals.

Aluminium - 3 Month Rolling Forward



Source: Bloomberg, CF Research August 2017

Key Upcoming Events

24/08/17 Jackson Hole Symposium

Market View

Asian markets sold off overnight as the North Korean saga continues to rumble on. Safe haven assets such as the Swiss franc, yen and gold all got bid up overnight. US markets sold off in the session but regained some momentum towards the end of the session. Markets had been very calm prior to this sell-off so some retracement was probably due. Data out today includes UK construction data which should give some indication of the health of the sector in the wake of Brexit uncertainty.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22049	-36.64	-0.17%	11.57%
S&P	2474	-0.90	-0.04%	10.51%
Nasdaq	6352	-18.13	-0.28%	18.00%
Nikkei	19,730	-8.97	-0.05%	3.22%
Hang Seng	27,485	-272.58	-0.98%	24.93%
Brent Oil	52.94	0.24	0.46%	-6.83%
WTI Oil	49.73	0.17	0.34%	-7.43%
Gold	1279	1.65	0.13%	11.46%
€/$	1.1729	-0.0030	-0.26%	11.52%
€/£	0.9037	-0.0005	-0.06%	5.88%
£/$	1.2979	-0.0025	-0.19%	5.18%

	Yield	Change
German 10 Year	0.44%	0.011%
UK 10 Year	1.12%	0.012%
US 10 Year	2.24%	-0.003%
Irish 10 Year	0.74%	0.004%
Spain 10 Year	1.43%	-0.004%
Italy 10 Year	2.01%	-0.007%

Source: Bloomberg, CF Research August 2017

Kerry Group - H1/17 results - Strong momentum continues Closing Price - €74.30

News

Kerry released H1/17 results this morning and the strong operating momentum it enjoyed in Q4/16 and Q1/17 continued into Q2/17. Total revenue for H1/17 increased 4.8% YoY to €3.2bn, and Group trading profits increased by 5.2% to €338m, while trading margins were maintained at 10.6%. Adjusted EPS grew by 7.5% to 143.8c, which was bang in line with market expectations. Kerry's Taste and Nutrition (T&N) division which accounts for roughly 80% of revenues and 86% of EBITDA reported volume growth of 4.2% in H1/17 (4.1% in Q1/17). Its Consumer Foods division which accounts for the remaining 20% of revenues and 14% of EBITDA, reported volume growth of 2.3% (2.3% in Q1/17). Trading margins within the T&N increased by 20bps to 13%, while Consumer Foods operating margins reduced by 70bps to 7.6%. Operating margins within Kerry's Consumer Foods division were impacted by continued sterling pound weakness in the period. The Group's interim dividend also increased by 11.9% to 18.8c, and management remains committed to a progressive dividend policy. Management said its business outperformed market growth rates in the period. In terms of outlook, FY17 management guidance was originally for 5% to 9% adjusted EPS growth, however management now anticipates better constant currency performance of 2%, however this isn't sufficient to offset negative FX headwinds to the tune of 4% as a result of a stronger Euro, meaning management has lower its FY17 adjusted EPS growth to 3% - 7%.

Comment

In our opinion, Kerry is extremely well positioned to benefit from the rise in health conscious consumer trends continue to drive development of authentic, tasteful, nutritious, clean label, convenient food and beverage products. Kerry's customer alliances continue to drive a strong innovation pipeline in response to consumer requirements. Business development in the foodservice sector remains solid due to increased out-of-home consumption. On a geographical basis within its T&N division, the US performed strongly, it benefitted from improved performance in EMEA and continues to benefit from double digit volume growth in Asia-Pacific region which will likely remains a key focus of M&A activity following the acquisition of Jurong, China based Tianning Flavours business in February 2017 and Taste Master in Australia in March 2017. Such M&A investment activity will likely be done to expand Kerry's footprint in the region and capitalise on market growth opportunities. Net debt remained virtually unchanged at June 2017 at €1.22bn compared to €1.2bn at March 2017. The market forecasts Net Debt will fall to €900m by 2018 year end representing a Net Debt/ EBITDA ratio of 0.91x assuming no other major acquisitions are announced in that time frame. In our opinion, the Group has significant financial capacity to facilitate continued organic and acquisitive growth opportunities as they present themselves. The Group is highly cash generative, and generated €357m in free cash flow in H1/17 marginally down on H1/16, however capex did uptick marginally. Long standing CEO, Stan McCarthy is due to step down as CEO at the end of September and Edmond Scanlon is his successor. On the 11th October, Kerry will host its annual Capital Markets Day where newly appointed CEO, Edmond Scanlon will set out new medium term financial targets for the Group, which will likely be the next big catalyst for the Group. Kerry's share price closed yesterday c. 9% below its high of the year which was achieved after a solid Q1/17 results update Despite a guidance downgrade which was due to FX headwinds, its consensus 12 month target price at €82.69 which we think is an achievable target for investors in the near term in our opinion, and expected the market to react favourably to this morning's release. The stock currently trades at 21.8x FY17e earnings and offers a dividend yield of 0.8%.

Stephen Hall, CFA | Investment Analyst

Glanbia - H1/17 results - Mixed Results, but positive longer term Closing Price - €17.38

News

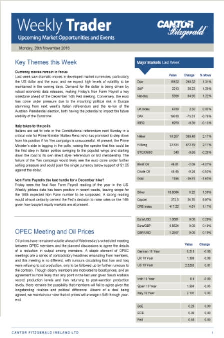
Glanbia reported a mixed set of H1/17 results this morning which were adjusted for the recent spin off of Dairy Ireland. Glanbia reported wholly owned revenues of €1,186m, +7.3% on a constant currency basis. It reported wholly owned EBITA of €148.3m, +3.5% on a constant currency basis. Wholly owned EBITA margin fell by 40bps to 12.5% from 12.9% in the prior period. Management re-iterated full year FY17 EPS guidance growth of between 7% - 10% on a constant currency basis. However, reported EPS could come in below constant currency EPS if the US Dollar continues to weakened again the Euro. EURUSD averaged $1.0831 in H1/17 compared to $1.1161 in H1/16. This FX headwind from a strengthening Euro is set to worsen in Q3/17 which has averaged $1.1590 to date compared to $1.1082 in Q3/16. The US accounted for 61% of total Group revenues in 2016.

Comment

In recent years, Glanbia's GPN division has been the main driver of earnings growth, however its Glanbia Nutritional (GN) division which incorporates its Cheese and Nutritional Ingredients segments were the main drivers of growth in H1/17 with JV & Associate also seeing strong growth too. This division saw revenue growth of 9% on a constant current basis to €642m, and 8.1% growth in EBITA to €64.4m, with operating margins being squeezed marginally by 10bps to 10.0%. Overall pricing improved by 5.9% primarily due to higher dairy markets, while volume increased 3.1%. Its Nutritional Solutions sub-segment within the GN division saw healthy revenue growth of 18.6% YoY to €285.6m, while its US Cheese business saw a 2.4% increase in revenues with lower volume offset by higher pricing. Nutritional ingredients performed strongly in H1/17 driven by volume growth of value-added dairy and non-dairy ingredients including bar systems and high end whey. Its GPN division saw revenue growth of 5.4% to €543.5m which was primarily due to the recent acquisitions of Amazing Grass and Body & Fit. Volume declined YoY due to contract revenue declines and pricing was neutral on a comparative basis. Product innovation will remain a source of revenue growth in the division as it launched ON Cake Bites and thinkThin plant based bars which performed well in the period. Like-for-like branded revenue growth in the period was +0.7% and the improved performance seen in the US in Q2/17 is likely to continue into the second half of 2017 in management's opinion. Management expects mid-single digit volume growth in H2/17. Overall, the organic GPN volume growth figures were marginally disappointing. Its JV & Associates business performed strongly with revenue growth of 23.1% and EBITA growth of 84% on a constant currency basis. Going forward, earnings growth is likely to be more evenly split between both the GPN and GN division which we view as a positive development. Glanbia's Net Debt/ EBITDA ratio stood at 1.6x at June 2017 (1.2x at December 2016). Net Debt increased by €170m in the period to €608m at June 2017 as a results of capex and M&A activity partially offset by proceeds from its Dairy Ireland sale. The Group still has to receive roughly €88m from this sale which should help reduce leverage on its balance sheet in the future. The Group announced a 10% increase in its interim dividend to 5.91c, (5.37c in H1/16), this will be paid on the 6th October. Overall, a mixed set of results due to flat volume growth within its GPN division, however we remain positive on the underlying fundamentals of the Group longer term. We see key support coming in below at €17 which has been tested and held on numerous occasion in recent months. We see the consensus 12 month target price of €19.67 as a realistic target price to achieve in the near term. The stock currently trades at 18.8x FY17e earnings, a 9% discount to its own historical average of 20.5x averaged over the past 3 years.

Stephen Hall, CFA | 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 meets 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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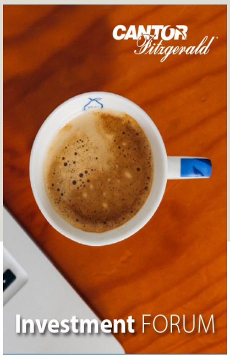

Investment Forum

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)

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

Glanbia: Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

Historical Recommendation

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

Glanbia: We have been positive on Glanbia's outlook since 13/03/13 and no changes have been made to the recommendation since then.

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