Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 2nd August 2017

Morning Round Up

Ryanair: Improves load factor to 97% in July 2017

This morning, Ryanair released another very strong set of monthly traffic stats for July 2017 which saw passenger growth of 11% to 12.6 million passengers, and saw its load factor improve by 1 percentage point to an industry leading 97%. Rolling 12 month passenger carried now stands at 125.1 million. Ryanair became the first airline to carry over 12 million passengers in a month in July 2017 and it also carried its 1 billionth customer since the company's inception in 1985. At Ryanair's Q1/18 results, management upwardly revised the number of passengers it expects to carry in FY18 to 131 million previously from 130 million. The market has responded favourably to this very strong operating performance this morning at the open. Its share price continues to be support by Ryanair on-going €600m share buyback programme which is roughly 48% complete (€288m).

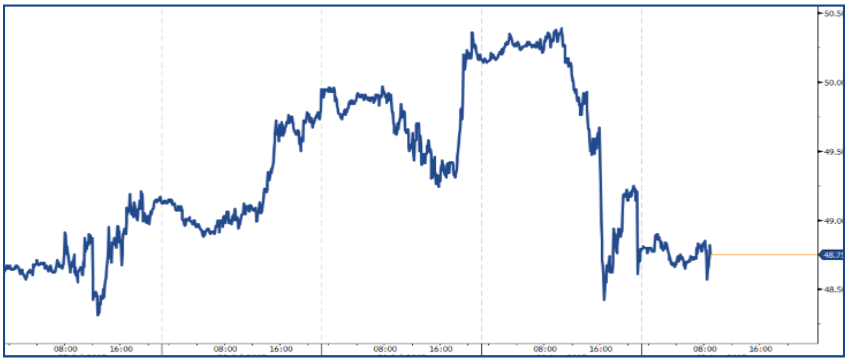
EURUSD – Technical picture and positioning

The euro continues to gain ground against the US dollar moving up $1.1846 yesterday before a slight retracement to $1.1826. This was driven by good European economic data yesterday including GDP growth and multiple PMIs being quite strong. As we have been guiding clients, we are expected the euro to move to $1.19 - $1.20 by year end. However, the rally is beginning to look stretched at the minute and is probably due a pullback. Most technical indicators are suggesting the euro is overbought including an RSI reading of 75. From a positioning perspective it is the same story. Euro net longs are hovering at their highest position among hedge funds since 2011. Speculative positions are even more bullish with their highest net longs since 2007. Conversely speculative short positions on USD are at their highest since 2013. We continue to believe the euro moves higher. In the immediate near term, just based on positioning alone, the euro is due a pull back.

Oil - US Shale continues to gain efficiencies

Oil capped its recent rally with WTI dropping back down from just above $52 a barrel to under $48 yesterday. In the medium term it is facing a much greater threat. Four major US shale producers had earnings out yesterday. All four guided for increase production and outlined goals that would push US output towards a record 10m barrels a day in 2018. Interestingly, despite these increased production targets, all four companies did not guide for any increase in capex or investment spending. This indicates to us that US shale producers are getting much more efficient and are becoming more profitable at lower oil prices. In the medium term we believe any cuts that OPEC may extend or increase will ultimately be offset by US shale production increases

WTI Crude - 5 day chart



Key Upcoming Events

03/08/17 - BOE Decision

Market View

Asian markets were up overnight helped by the performance of some major Asian tech names who have large contracts with Apple. Apple's very strong results had the spill-over effect of boosting these companies' share prices overnight. Elsewhere, oil declined as data from the American Petroleum Institute showed that US crude stockpiles may have increased this week. Markets continue to discount the ongoing Trump political saga and post decent returns despite the turmoil in Washington. Good European GDP and PMI data helped European stocks outperform despite the strong euro. Market focus today will be on EIA production data, UK construction PMI and European PPI data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21964	72.80	0.33%	11.14%
S&P	2476	6.05	0.24%	10.61%
Nasdaq	6363	14.82	0.23%	18.20%
Nikkei	20,080	94.25	0.47%	5.05%
Hang Seng	27,697	157.26	0.57%	25.89%
Brent Oil	51.49	-0.29	-0.56%	-9.38%
WTI Oil	48.79	-0.37	-0.75%	-9.18%
Gold	1267	-2.07	-0.16%	10.39%
€/$	1.1834	0.0032	0.27%	12.52%
€/£	0.8950	0.0011	0.13%	4.86%
£/$	1.3222	0.0019	0.14%	7.15%

	Yield	Change
German 10 Year	0.49%	0.003%
UK 10 Year	1.23%	0.019%
US 10 Year	2.27%	0.012%
Irish 10 Year	0.79%	0.002%
Spain 10 Year	1.47%	0.028%
Italy 10 Year	2.04%	0.021%

Source: Bloomberg, CF Research July 2017

Apple - Very strong results that also point to a better H2 Closing Price - $150.05

News

Apple released Q3/17 earnings after market last night that were very solid. Growth across all production lines including ones which had seen multiple quarters of decline. EPS of $1.67 comfortably beat Street estimates of $1.57. Revenue for the quarter also beat at $45.41bn vs $44.95bn, an increase of 7.2%. EBITDA also beat at $13.12bn vs estimates of $13.05bn. Importantly, with increasing focus on this metric by analysts, service revenue grew by 22% YoY to $7.27bn. Cash position also improved moving from $256.8bn in Q2 to 261.5bn. iPhone units sold came in at 41m which was a slight miss on Street estimates of 41.1m but meant strong growth of 3.3%. iPad and Mac sales, which had been declining for multiple quarters, rose 1.9% and 6.7% respectively. Revenue from other products grew by 23% YoY to $2.74bn.

Comment

This was a very strong report from Apple and shares were up 6.6% in after-market trading. Apple services segment has taken on increasing importance as it is one of the company's highest growth areas and should act as a buffer for growth in the eventuality that future iPhone sales growth slows. The growth in services revenue, particularly from its App Store, is welcome. Management also guided for revenue between September – October to be in the range of $49 - $52bn. Previous consensus estimates had predicted $49.1bn so this upgraded guidance is also welcome. This upgraded guidance also indicated that there is unlikely to be a delay with the launch of the new iPhone cycle. Analysts had been fearing that management may push back launching the 10th anniversary iPhone refreshed model from its traditional launch date in September. Apple is likely to introduce three new handsets; a revamped iPhone 8 and upgrades to the existing iPhone 7 and iPhone 7 Plus. The new model should have an OLED screen, slimmer side bezels like those on the Samsung Galaxy S8, a 3D face-scanning sensor for unlocking the phone, and improved cameras. Apple has also increased investment in other areas which we believe will be growth areas in the future including improved health and fitness offerings, autonomous driving, augmented reality and its own semiconductor technology. We believe this investment in new areas along with continued growth in services revenue bodes well for the long term growth prospects of Apple. In the nearer term clarity on the launch of the new iteration of iPhone should also provide support. We are changing our rating on Apple from Market Perform to Outperform.

Will Heffernan | Investment Analyst

Smurfit - Strong performance despite input cost inflation Closing Price - €25.89

News

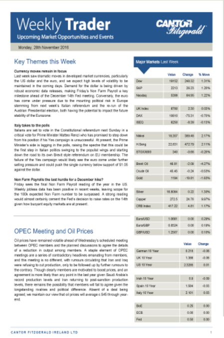
This morning, Smurfit Kappa, Europe's largest vertically-integrated paper packing company, released a positive H1/17 results update which was bang in line with market expectations, which investors reacted marginally favourably too at the open. The Group saw Q2/17 revenues of €2,104m, vs. consensus revenue forecasts of €2,095m, Q2/17 EBITDA of €292m vs. market expectations of €291m. The Group reported very strong organic volume growth of 5% in Europe (77% of Group EBITDA) vs. 3% consensus expectations. Organic volume grew by 3% in the Americas. Overall EBITDA margins grew from 13% in Q1/17 to 13.9% in Q2/17 and underlying margin recover should continue in H2/17. Smurfit had to contend with higher OCC input prices in H1/17 to the tune of €75m which squeezed operating margins. It has a net long Kraftliner position of 500k tonnes and has been successful in implementing €100 a tonne price increases in 2017 to date, and recently announced its intentions for a further €50 a tonne price increase. Higher container board prices should eventually translate into higher box prices with a small lag. In management's view "the Group is well positioned to further recover margin through the implementation of corrugated price increases over the remainder of 2017 and 2018".

Comment

In the Americas (23% of Group EBITDA), the Group has seen strong volume growth in Colombia, Mexico and Brazil while Argentina and Venezuela remains challenging. This region offers attractive organic volume growth opportunities at higher EBITDA margins than Europe. Capex as a percentage of depreciation was 88% in H1/17, and a forecast Capex reduction in future years should enable a step up in the company's free cash flow. Management's tight focus on cost controls and efforts to optimise Capex has enabled FCF to increase. Management announced a 5% increase in its interim dividend to 23.1c which will be paid on 27th October. In terms of free cash flow generation, the Group generated €30m in Q2/17 despite the fact EBITDA was €20m lower. This was down to better working capital management. Net Debt stood at €2,985m at June 2017, while Net Debt/ EBITDA remains at 2.5x, which is the exact mid-point of the 2.0x – 3.0x leverage rate management is comfortable with. The stock currently trades at 12.5x FY17e earnings and we feel the group could re-rate towards 14x earnings within the next 12 months. The stock offers investors a reasonably attractive dividend yield of 3.3% and the consensus 12 month target price is €29.15, which is 12.5% above current levels.

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.

[Click Here]

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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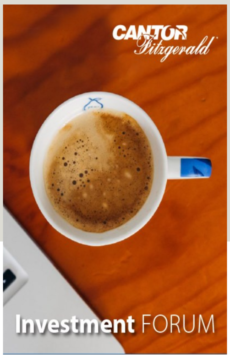

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

[Click here]

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Apple: Apple Inc. designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions. The Company sells its products worldwide through its online stores, its retail stores, its direct sales force, third-party wholesalers, and resellers

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

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.

Historical Recommendation

Apple: We changed our rating on Apple to Outperform from Market Perform, as of 0208/2017

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

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

http://www.cantorfitzgerald.ie/research_disclosures.php

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