

Thursday, 3rd August 2017

Morning Round Up

Average CEO pay of FTSE 100 firms falls 17% in 2016

In 2016, the average CEO pay of a FTSE 100 firm fell 17% year-on-year to £4.5m. This compares to the average medium wage in the UK of just £28,000 according to the ONS. This figure includes salary, bonuses, incentives and pension contribution. UK Prime Minister, Theresa May recently warned of an "irrational, unhealthy and growing gap" between the pay of executives and workers. The Conservatives Party said in their original manifesto that it will introduce strict annual shareholders votes on executive pay at listed companies, however it was not included in the Queen's Speech meaning it is unlikely to be introduced into law within the new 2 years.

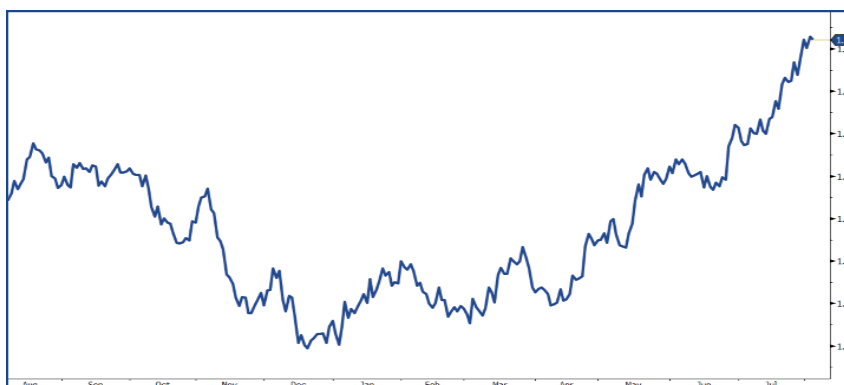
Bank of England meeting preview

Key market focus today is the Bank of England rate decision. At the last council meeting the council voted 5-3 to keep rates unchanged, from 6-2 the prior meeting. UK economic data has weakened since the last meeting but that hasn't stopped hawkish comments stemming coming from several BOE members. However, Carney and Deputy Governor, Ben Broadbent has chosen a more dovish stance focusing on softer UK economic data rather than focusing on the fact that the UK inflation currently stands at 2.6%, well above the BOE 2% inflation target. However, this period of above trend inflation has been put down to a weaker Pound and causing more expensive imports. The BOE will also publish revised economic and inflation outlooks out till 2019 too. Since the last meeting, UK Consumer Confidence has fallen to its lowest level since last year's Brexit vote, as UK consumers income is being squeezed as inflation outpaces wage growth. The Pound continues to weaken on a trade weighted basis. Any comments on the recent uptick in consumer credit will be closely watched too, which is a concern to the council.

Ryanair warns of post-Brexit chaos

Yesterday, Ryanair's charismatic CEO, Michael O'Leary warned that if no deal was struck by the end of next year, "we and other airlines will have to start cancelling flights or taking flights off sale" for summer 2019. This is a view that Mr O'Leary has reiterated several times in recent months. He is concerned that the UK is running out of time to negotiate an "open skies" agreement with the EU before then. He met with Chris Grayling, the UK Transport Secretary in an effort highlight his concerns. Mr O'Leary said "a deal governing UK-EU air traffic needed to be in place by late 2018 ahead of formal Brexit since that is when airlines start scheduling and selling flights for the summer of 2019".

EURUSD - price chart



Key Upcoming Events

03/08/17 - BOE Decision

Market View

European equities opened lower this morning, following softer Chinese Services PMI data overnight. Overnight two US Fed members, Williams and Rosengren reiterated their view that the Fed should continue to raise rates and gradually begin to reduce the size of its balance sheet. EURUSD is holding onto gains at \$1.1850 at 30 month highs. Key market focus today is the Bank of England rate decision. At the last council meeting the council voted 5-3 to keep rates unchanged, from 6-2 the prior meeting. There is a potential for this vote to revert back to 6-2 today, given the down tick in the last inflation reading from 2.9% to 2.6%. Before this decision we get Services PMI data from the Eurozone, Germany, France, Italy and the UK.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22016	52.32	0.24%	11.40%
S&P	2478	1.22	0.05%	10.66%
Nasdaq	6363	-0.29	0.00%	18.20%

Nikkei	20,029	-50.78	-0.25%	4.79%
Hang Seng	27,540	-66.99	-0.24%	25.18%

Brent Oil	52	-0.36	-0.69%	-8.48%
WTI Oil	49.32	-0.27	-0.54%	-8.19%
Gold	1262	-4.64	-0.37%	9.98%

€/\$	1.1844	-0.0012	-0.10%	12.62%
€/£	0.8953	-0.0013	-0.14%	4.90%
£/\$	1.323	0.0007	0.05%	7.21%

	Yield	Change
German 10 Year	0.50%	0.009%
UK 10 Year	1.24%	0.006%
US 10 Year	2.26%	-0.009%

Irish 10 Year	0.79%	0.008%
Spain 10 Year	1.48%	0.018%
Italy 10 Year	2.03%	0.017%

Source: Bloomberg, CF Research July 2017

Siemens - Weakness in P&G division dragging on stock

Closing Price - €116.04

News

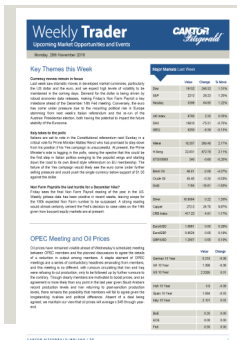
Siemens released Q3 results to the market this morning that were generally negative for the stock. EPS beat coming in at €1.718 vs Street estimates of €1.696. Revenue missed at €21.41bn vs estimates of €21.76bn. Sales were up 3% which is line with consensus. However, new orders of €19.8bn is 8% below consensus. This was driven overwhelmingly by sharp declines in Power & Gas (P&G) and Wind divisions. P&G revenue declined 11% and managed a margin of just 9.7% (vs consensus of 10.2%). Overall P&G orders were down 41% driven by a sharp downturn in the Americas Region. Industrial profit overall missed by 5%. Margins were down in all Energy divisions with Wind margin specifically down 220bps to just 6.1%. Overall margin was up to 11.4% which beat consensus estimates of 11.2%. This was mainly driven by a 20bp margin increase in Digital Factory to 16.4%. The Digital Factory division performed well and reported 11% organic sales growth vs estimate of 9%. Mobility also performed well with +15% growth in sales. Management also formally notified the markets of their intention to IPO their healthcare division.

Comment

Our investment case for Siemens is based on the major restructuring the company is currently undergoing and future growth expectations for areas such as automated industry & robotics. In this regard this release illustrated the positive direction Siemens is going. Digital Factory continues to grow and is one of the highest margin divisions. The IPO of Healthineers continues management's strategy of spinning off lower margin businesses and focusing the company on automation and factory digitalisation. We continue to believe that Siemens will remain the market leader in this space. However, the decline in P&G and new orders was significantly larger than we were expecting. Over 20% of Siemens revenue comes from the P&G division. A further 14.5% comes from Energy Management and 7.3% from Wind Power & Renewables. All off these divisions significantly underperformed. Furthermore, management has guided for little or no improvement in P&G, expecting "reduced overall demand" which has led to "declining business and price pressures amid overcapacity". As this remains an integral part of the business it is possible that the continued headwinds in this may not be offset by growth in other divisions such as Digital Factory. We are moving Siemens from Outperform to Under Review in the short term.

[Will Heffernan | Investment Analyst](#)

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Issuer Descriptions: (Source: Bloomberg)

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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

Siemens: We changed our rating to Outperform on the 30/01/2017.

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

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