Daily Note
Views, news and topics from today's markets

CANTOR Fitzgerald

Tuesday, 15th August 2017

Morning Round Up

Germany – Merkel Extends Lead

After a year where the majority of European political volatility fizzled out, it looks as if the German election on September 24th will follow the same course. Earlier on in the year Ms Merkel was under pressure due to her immigration stance that had seen the far right AfD gain in the polls and her main rival Martin Schulz make significant progress. However since then Ms Merkel has taken a tougher stance on immigrants and has seen German economic data remain very strong. She now enjoys a 15% lead over Mr Schulz, who has been going backwards since May. She has also been helped by developments on the internationals stage which has seen Ms Merkel cast as the sensible leader in opposition to Mr Trump. This weekend she kicked off a 50 stop campaign tour across Germany. If Ms Merkel wins comfortably it should provide a further boost to European equities in the second half of 2017.

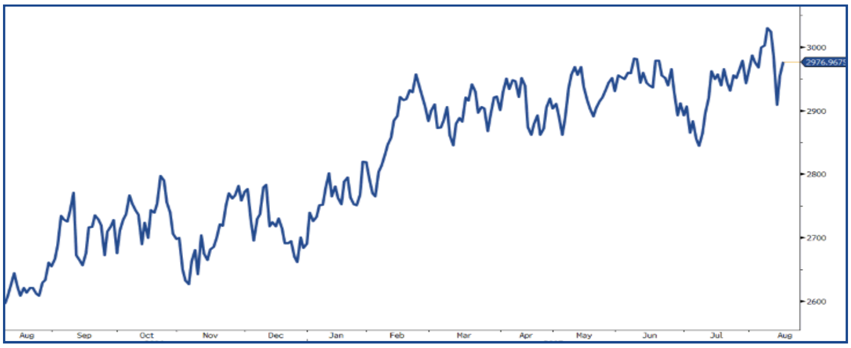
Brexit – UK Shifting Stance

Following on from Ms May's disastrous election there has been a subtle shift in rhetoric from the Tory party. The pre-election ebullient tactics have been dialled down with Tory ministers engaging in a more diplomatic tone. Ms May faces opposition from within her own party which she may have to cow down to in order to ensure her government's survival. Today sees the release of a government position paper on Brexit that is expected to show that the UK will seek a deal that allows the transit of goods across borders to continue as it is now for an interim period. In effect this is a temporary customs union. It remains to be seen how receptive the EU is to this idea but it does indicate that the UK government is willing to make concessions to minimise economic disruption.

EM – China's Slowing Growth

Recent data release in China point to an economy that should slow in the second half of 2017. Housing starts for July declined 3% YoY, the first contraction since Sept 2016. Fixed asset investment (spending on buildings, infra etc.) grew at 8.3% in Jan-July – the slowest pace since December and below analysts' expectations. Growth in factory output and retail sales both slowed to their weakest since Feb and were weaker than expected. Trade data last week showed imports growing at their slowest pace of the year due to waning demand for raw materials including metals, cement and oil. This is not a recession but more of a controlled slowdown that the government is seeking to reduce financial speculation and overinvestment in certain sectors. EM assets are likely to be slightly weaker in the short term as a result.

Hang Seng Index - price chart



Source: Bloomberg, CF Research August 2017

Key Upcoming Events

24/08/17 Jackson Hole Symposium

Market View

Markets went back definitively risk on yesterday as the North Korean saga dissipated. European equities rally approx. 1.4% with US markets also gaining 1%. Asian markets were also up overnight as investors went back to the generally strong economic fundamental picture. The euro lost some ground against US dollar as we had been expecting due to stretched positioning. Sterling continues to weaken on the back of below par economic data. Market focus today will be on UK inflation data, US retail sales and Chinese new loan data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21994	135.39	0.62%	11.29%
S&P	2466	24.52	1.00%	10.14%
Nasdaq	6340	83.68	1.34%	17.78%
Nikkei	19,753	216.21	1.11%	3.34%
Hang Seng	27,340	90.18	0.33%	24.27%
Brent Oil	50.78	0.05	0.10%	-10.63%
WTI Oil	47.63	0.04	0.08%	-11.34%
Gold	1276	-6.12	-0.48%	11.20%
€/$	1.1742	-0.0038	-0.32%	11.65%
€/£	0.9062	-0.0024	-0.27%	6.18%
£/$	1.2957	-0.0007	-0.05%	5.00%

	Yield	Change
German 10 Year	0.42%	0.017%
UK 10 Year	1.10%	0.025%
US 10 Year	2.24%	0.021%
Irish 10 Year	0.76%	0.014%
Spain 10 Year	1.43%	-0.008%
Italy 10 Year	2.01%	-0.011%

Source: Bloomberg, CF Research August 2017

Kingspan - H1/17 results preview Closing Price - €29.30

News

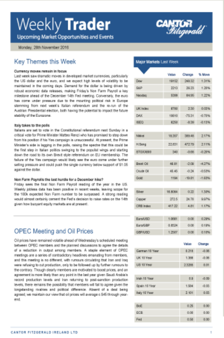
Kingspan is due to report H1/17 results this Friday, 18th August. Investor sentiment has soured toward the Group in recent months due to the tragic Grenfell tower fire in London where it was discovered a small quantity of its Koolterm product was used in the building (5% of external insulation), however two other major insulation components were identified as main reason for the fire spreading. Neither Kingspan insulated panels nor Kingspan façade systems were used on Grenfell tower and a Kingspan's spokesman reiterated its product deliver safe, reliable, energy efficient insulation solutions in a statement which followed. This ultimately saw Kingspan's share price retrace c. 15% between its May 2017 highs and August 2017 lows, however we are once again seeing investors buying the dip in recent sessions. This Friday, we will be paying close attention for any comments from Kingspan's management team on a potential impact to its order book or a change in building regulations it anticipates as a result of the fire in the UK.

Comment

Kingspan performed strongly in the first 3 months of 2017, with revenue growth of 24% YoY in the period. The market is forecasting H1/17 revenues of €1.75bn. However, management flagged it will experience deepening margin pressures in H1/17 due to rising raw material costs through higher MDI chemical prices. We anticipate a lagged effect in Kingspan from recovering cost pressures and expect margin expansion in H2/17 continuing into early 2018. Kingspan has been very active in acquiring bolt-on companies in recent years, however it hasn't announced a new major acquisition in 2017. Assuming the Group doesn't announce any new deals, and given the highly cash generative nature of the business, its Net Debt/ EBITDA ratio could drop to 0.6x by 2017, and 0.15x by 2018 year end. We expect management will remain active in looking for new potential acquisition opportunities to bolster future earnings growth. In its absence, the Group will continue to focus on speculative organic capex projects. Management has shown strong capital discipline in recent years so we imagine expensive valuations could be stopping deals from closing. In June 2017, management also extended a €500m RCF facility out to 2022, meaning the Group has significant financial capacity at its disposal. Kingspan is currently trading at 18.6x FY17e earnings and offers investors a 1.3% dividend yield. We remain bullish on the long term earnings growth prospects of Kingspan where penetration levels of its key products are set to structurally increase due to regulatory changes and environmental awareness of the construction sector for many years to come.

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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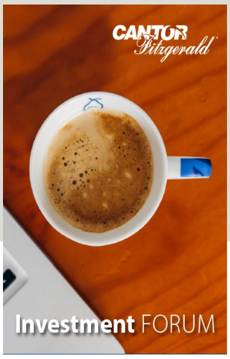

Investment Forum

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)

Kingspan: Kingspan is a global market player in high performance insulation and building envelope technologies.

Historical Recommendation

Kingspan: We have changed our rating for Kingspan from Not Rated to Outperform on the 14/03/2016 .

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