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

CANTOR Fitzgerald

Friday, 18th August 2017

Morning Round Up

Trump volatility starts to impact

Up until this month markets had generally been able to shake off any news emanating from the White House. Despite the Russia scandal, various sackings of high ranking officials and the loss of the Healthcare bill, equity markets continued to rally. However that appears to be changing. Following a tumultuous week related to Charlottesville episode, speculation yesterday that Gary Cohn, Trump chief economic advisor, was stepping down resulted in US equities selling off hard. Mr Cohn later confirmed this wasn't the case. But Mr Cohn, who carries a lot of the market's hopes for economic reform, did express misgivings about Mr Trump's recent remarks and appears to be engaged in a power struggle with Steve Bannon, Trump's chief strategist. If Mr Cohn does depart, it substantially reduces the possibility of passing any tax or economic reform. In a related note, more senior Republicans have turned on Trump in recent weeks after both his economic advisory councils collapsed.

Questions over Irish CB policy

A row appears to be brewing over the role of the Irish Central Bank in light of some recent decisions by UK financials firms to not opt for Dublin as their European hub. Mattie McGrath, Fianna Fail's finance spokesman, has hinted that the CB may be responsible for losing some of these firms. The average turnaround time to get a banking license in Luxembourg is six months. In Dublin it is 12-18 months. There has also been speculation that the Irish CB does not have the capacity to oversee complicated derivatives trading desks.

ECB minutes reveal strong Euro worries

The minutes from the last ECB meeting were released yesterday and showed that the stronger euro is now a topic of discussion for the Council. While it was agreed that the stronger euro was due to better economic fundamentals, concerns were expressed about it over-shooting and ultimately being a headwind to achieving the ECB's inflation target. The euro fell after the report. We had been guiding that the ECB may verbally intervene if the euro had continued to rally. We would interpret yesterday's minutes as the ECB wishing that the euro would remain capped for now. Separately the council also made the point that it needs to gain more policy space and flexibility to adjust policy and the degree of monetary accommodation in either direction. Overall it was a very dovish release.

EURUSD - 5 day price chart

Source: Bloomberg, CF Research August 2017

Key Upcoming Events

24/08/17 Jackson Hole Symposium

Market View

Asian markets followed their US counterparts and sold off heavily overnight. Fears regarding the pro-growth US agenda were stoked due to the Gary Cohn speculation, the resignation of Trump's economic advisory councils and senior Republicans increasingly growing tired of Trump. Overnight Chinese home price data showed a continuing slowdown in the market as the Chinese authorities move to prevent another bubble. The euro declined vs USD when the ECB minutes were released but later gained ground as the Cohn speculation broke. Market focus today will on the Eurozone construction output and any ongoing developments from the Trump administration.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	21751	-274.14	-1.24%	10.06%
S&P	2430	-38.10	-1.54%	8.54%
Nasdaq	6222	-123.19	-1.94%	15.58%
Nikkei	19,470	-232.22	-1.18%	1.86%
Hang Seng	27,103	-241.18	-0.88%	23.19%
Brent Oil	51.19	0.16	0.31%	-9.91%
WTI Oil	47.29	0.20	0.42%	-11.97%
Gold	1294	5.38	0.42%	12.73%
€/$	1.1748	0.0025	0.21%	11.70%
€/£	0.9113	0.0002	0.03%	6.77%
£/$	1.2892	0.0024	0.19%	4.47%

	Yield	Change
German 10 Year	0.41%	-0.017%
UK 10 Year	1.08%	-0.011%
US 10 Year	2.20%	0.010%
Irish 10 Year	0.75%	-0.023%
Spain 10 Year	1.55%	0.115%
Italy 10 Year	2.03%	-0.003%

Source: Bloomberg, CF Research August 2017

Kingspan - Strong Results should alleviate investor concerns

Closing Price - €28.67

News

Kingspan reported a solid set of H1/17 results this morning despite facing significant raw material cost pressures during the period and negative read across from some of its peers in the lead up to results. We expect the market to react favourable to this set of results despite risk off sentiment in the market this morning, and for its share price to recover weakness experienced since the Grenfell Tower fire in London in June 2017 which impacted investor sentiment towards the stock. Group revenues in H1/17 grew 19% YoY on a reported basis (21% on constant currency basis) to €1.75m bang in line with consensus analyst expectations. Trading profit grew 6% on a reported basis (10% on a constant currency basis) to €177.8m, while trading margins fell to 10.2% which represented a 120bps margin contraction in the period as the Group had to contend with significant raw material price pressures through rising MDI chemical prices. Management expects further MDI chemical price increases in H2/17 due to global supply constraints, however margin recovery is a key focus for management and it forecasts that it will be successful in doing so. The Group increased its interim dividend by 10% to 11c in the period. Overall management said “the first six months of 2017 were strong for Kingspan and we expect end market activity to be broadly positive for the remainder of the year”. Additional it said “at current exchange rates to deliver a full-year result at least in line with consensus”, which is a positive update.

On a divisional product basis, its Insulated Panels business which accounts for 63.5% of Group revenues and 65% of Group profitability. Management said activity was strong in Benelux, France and the Nordics. Penetration rates in these regions remains relatively low and should improve over time. Quotation activity remains encouraging in the UK, and intake in Q3/17 is expected to improve as sectors such as data, online retail and continental retailers continue to develop their physical infrastructure across the UK. In the US, encouragingly market penetration continues to advance. Australasia demonstrated encouraging growth, and the energy efficiency of buildings in the region lags Europe and should improve in the long term. Its Insulated Panels division accounts for 21.3% of Group revenues and 22% of Group profitability saw modest overall growth in the UK, but a noticeable increase in conversion to Kooltherm which should be supportive of margin expansion through improved mix. Kooltherm represents 35% of rigid board sales globally. Growth in mainland Europe has also been encouraging, while additional capacity needs to be added in the US. Its newly formed “Light and Air” division which specialised in efficient day-lighting, smoke management and ventilation systems should contribute €200m towards Group revenues in 2017 (c. 5% of Group sales) at a 7% trading margin. Management expects revenues in this division to grow to €500m within 5 years, and this will be achieved through organic and inorganic growth.

Comment

We remain positive on the long term growth potential of the business due to the structural shift towards ever increasing demand for greater energy efficient buildings. It is a global leader in creating energy efficient buildings and manufactures innovative and high performance products. The Group completed an acquisition in Columbia which opens up yet another brand new sales region in South America for the Group which may present attractive growth opportunities over the long term. The company also began manufacturing in Mexico and this region will likely be a focus of future growth. Kingspan is becoming a truly global company given its expansion into Australia and Asia in recent years opening up new end-users markets.

Fire safety of its products was big concern following the Grenfell Tower fires. Management said its products have been tested 1,700 times over the past 10 years and some of its products are now achieving standards that were previously reserved for fibre containing materials often referred to as “non-combustible”. The Group remains focus on innovation which has been a cornerstone of Kingspan’s strategy for many years and has enabled to produce best in class products which helps it differentiate itself from its peers. Its Net Debt position was €440.3m compared to €457m at March 2017. Management said “its balance sheet is strong and ready to support our development agenda as opportunities unfold”. From a valuation perspective, following a 15.5% retracement in Kingspan’s share price between June 2017 – August 2017 meant it had de-rated to 17.5x FY17e earnings at its low. It was trading at 18.3x at last night’s close and we the see potential for small earnings upgrades to come through and a positive valuation re-rate due to investors concerns’ being alleviated. We think Kingspan can re-test its high of 2017 at €33 in the near term.

Stephen Hall, CFA | Investment Analyst

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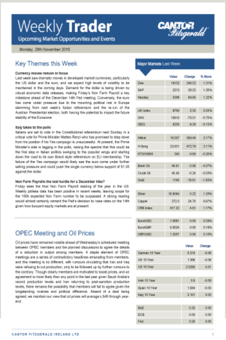

Weekly Trader

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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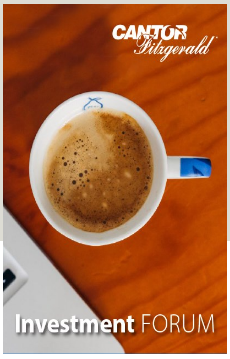

Investment Forum

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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