

Friday, 13th October 2017

Morning Round Up

Economic commentary from the Central Bank

The Irish Central Bank has upgraded its growth forecasts for the Irish economy, citing strong growth in full-time employment, incomes and consumer spending. The bank said it now expects the economy to grow by 4.9% in GDP terms this year, up from a previous estimate of 4.5%, and by 3.9% next year. It predicted the economy would deliver an additional 90,000 new jobs by the end of next year while unemployment would fall to a 10-year low of 5.6%. In its report, the Central Bank said investment in building and construction continues to recover strongly with housing construction up by 31.8% in 2017, although this comes from a very low base. It also said that export growth for 2017 had been revised down slightly to 4.9%, following weak contract manufacturing exports in the first half of the year.

Bitcoin price continues to soar

Bitcoin surged to a fresh record yesterday as the enthusiasm for cryptocurrencies shows little sign of abating. The world's largest cryptocurrency rose as much as 8.4% as it broke through highs of \$5,090 and \$5,209. In December 2016, bitcoin was trading at less than \$1,000 dollars. The digital currency's 440% surge this year has divided the financial community between those convinced it is a bubble on the verge of popping and those looking for ways to piggyback on its success. Perhaps the most combative challenge facing Bitcoin is the how comfortable people will be on the other side of the law if other governments follow China's lead and ban digital currencies.

Fifth round of Brexit negotiations produced little progress

The latest talks produced the minimum of what was expected after three days of negotiations there was little progress, no breakthroughs on citizens' rights after 2019 or on the financial settlement for the UK withdrawal from the bloc. The EU won't talk about trade before getting assurances that the U.K. will pay its dues, and with less than 18 months to go until the country tumbles out of the bloc, the focus in London has turned to contingency planning. Philip Hammond, the pro-EU Chancellor of the Exchequer, says he's reluctant to spend cash on a Plan B just to score negotiating points.

EURGBP - price chart



Source: Bloomberg, CF Research October 2017

Key Upcoming Events

26/10/2017—ECB Meeting

Market View

US dollar and Treasury yields declined yesterday as confidence in US tax plans declined. Mr Trump voiced concerns about the existing framework while some senior Republicans also aired concerns. It was a volatile day for sterling, initially falling as news broke of stalemate in the Brexit negotiations, then rallying as German media published a report stating that Mr Barnier will seek a transition period agreement, something which the UK wants. Elsewhere, unnamed ECB sources implied it was considering cutting their monthly bond buying in half starting in January and running till September. Market focus today will be on US Financials earnings and US CPI.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22841	-31.88	-0.14%	15.58%
S&P	2551	-4.31	-0.17%	13.94%
Nasdaq	6592	-12.04	-0.18%	22.45%

Nikkei	21,155	200.46	0.96%	10.68%
Hang Seng	28,482	22.96	0.08%	29.46%

Brent Oil	56.85	0.60	1.07%	0.05%
WTI Oil	51.21	0.61	1.21%	-4.67%
Gold	1297	3.09	0.24%	13.01%

€/\$	1.1823	-0.0007	-0.06%	12.42%
€/£	0.8891	-0.0028	-0.31%	4.17%
£/\$	1.3297	0.0035	0.26%	7.76%

	Yield	Change
German 10 Year	0.42%	-0.027%
UK 10 Year	1.35%	-0.029%
US 10 Year	2.31%	-0.004%

Irish 10 Year	0.65%	-0.032%
Spain 10 Year	1.61%	-0.025%
Italy 10 Year	2.09%	-0.026%

Source: Bloomberg, CF Research October 2017

INM - CEO departures adds to uncertainty

Closing Price - €0.108

News

News broke yesterday that Independent News & Media CEO Robert Pitt will leave his post with effect from today in order to pursue other interests. An ongoing public spat between Mr Pitt and Chairman Lesley Buckley, that had resulted in an ODCE investigation and numerous media headlines, should be brought to an end with this news. Media reports have Michael Doorley, currently company secretary and Chief Risk Officer, taking over as interim chairman.

Comment

This news adds further uncertainty to the INM investment case. Within the space of four months INM has had a profit warning and CEO departure. Mr Pitt leaving could potentially allow INM to move on and focus on the pressing issue of returning value to shareholders but it is too early to say. The next crucial step is the appointment of his successor. We maintain our Market Perform rating.

[Will Heffernan | Investment Analyst](#)**Kerry Group - Capital Markets Day overview**

Closing Price - €82.10

News

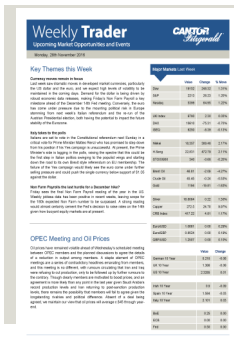
Kerry Group hosted its annual Capital Markets Day on Wednesday where the newly appointed CEO, Edmond Scanlon outlined his vision for the five year period between 2018 to 2022. The Group aims to achieve organic volume growth of between 3% - 5% per annum over the next five years which is split between 4% - 6% in its higher growth, higher margin Taste & Nutrition (T&N) division and 2% - 3% in its lower growth, lower margin Consumer Foods division. The Group aims to boost operating margins by 30bps per annum on average over a five year period, split +40bps in its T&N division and +20bps in its Consumer Foods division. The Group will also aim to achieve a constant currency EPS growth of 10% per annum, split 8% organic and 2% from bolt-on acquisitions. These new forecasts were broadly in-line with market expectations.

Comment

Given its volume and margin growth assumptions, Mr Scanlon believes it can generate over €3bn Free Cash Flow (FCF) over the coming 5 years. Kerry also announced a small bolt-on acquisition, Ganeden which is a probiotics business, as it continually looks to broaden its technical capabilities. Mr Scanlon was previously the head of the Asia Pacific division and Kerry's future M&A will likely be focused in this region in our opinion. The Group looks to achieve volume growth of 10% in the APMEA region, which is double the market growth rate of 5%. The next catalyst for the stock will be a Q3/17 trading update due on the 8th November. Kerry has performed very strongly year to date, up 21% and the stock has re-rated to 24.2x FY17e earnings and 22.3x FY18e earnings. We see marginal near term valuation re-rating potential in the stock from here in the near term, however we remain very positive on the outlook for Kerry on a multi-year horizon and believe it is well positioned to capitalise on the structural trend that consumers are increasingly looking for healthier food alternatives which should lead to product reformulation and play in Kerry's expertise and should drive organic volume growth.

[Stephen Hall, CFA | Investment Analyst](#)

Cantor Publications & Resources



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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Independent News and Media: Independent News & Media PLC (INM) is an international media group.

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

Historical Recommendation:

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

INM: We updated our recommendation to Market Perform from Outperform on 19/05/17.

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