

Weekly Trader

Upcoming Market Opportunities and Events

CANTOR
Fitzgerald

Monday, 23rd October 2017

Key Themes This Week

ECB Meeting this Thursday

The ECB meeting takes place on the 26th with the groundwork already laid for a tapering announcement. Market speculation is for the ECB to reduce monthly purchase from €60bn to €30bn and run the program till September 2018. The ECB has constantly stressed that there will be no rate rises until QE is over and markets are pricing the first rate hike in for Q1/19. We expect the ECB to lay out its full taper plan at this meeting instead of announcing each step at the time of taking. Mr Draghi has been fairly consistent and transparent with his message to markets. He has achieved his aim of flagging tapering without a taper tantrum occurring. Laying out the plan in full continues this trend. We do not expect the euro to rally as a result as tapering has been well flagged and the majority is in the price. We may however see a move in European yields which have been depressed of late due to the Catalonian situation. The US German 2 year spread is now at 229bps, the highest in 17 years. In our opinion this is unjustified and European bond yields should move higher in the near term. The major question about the announcement is how hawkish the plan actually is. If it surprises in terms of a larger than expected cut or a reduce timetable for finishing the euro and European yields should rally.

European Politics

European political volatility has reared its head again this month with the events in Catalonia and Italian elections moving closer. In Spain, Prime Minister Rajoy confirmed this weekend his intention to dissolve the regional government and reinstate control over the region. He will have to evoke emergency powers in order to do so and will need permission from the Senate, in which he has a majority. This process should take about two weeks. On the Catalan side, divisions have appeared but regional President Puigdemont appears to be trying to force Madrid to the negotiation table. The EU have firmly back Rajoy and have stated that an independent Catalan state would be outside of the EU economy. Rajoy has to tread carefully. The majority of Catalans oppose independence but any heavy tactics from Madrid is likely to change that dynamic. If Madrid has to move, it may call regional elections immediately in an attempt to defuse the situation. We would expect this situation to weigh on the euro in the immediate short term but not be much of a factor towards year end. Separately, referendums in Lombardo and Veneto in Italy on greater autonomy look set to be a landslide for the pro-autonomy side. These are unlikely to have a near term impact but could influence voting patterns in Italy's general election next May. Positively for the EU, electoral reform passed the lower house vote this week and the upper house could approve it in the next few weeks. This is important as it allows for more coalitions which should reduce the possibility of anti-establishment parties gaining power. We do not believe the current bout of volatility is enough to change our thesis for European equity outperformance relative to their US peers in the medium term.

Stock Coverage This Week

This week we cover off on CRH, Smurfit, Ryanair, Lloyds and Amazon.

Major Markets Last Week

	Value	Change	% Move
Dow	22872	98.05	0.43%
S&P	2553	3.84	0.15%
Nasdaq	6606	15.62	0.24%

UK Index	7546	38.08	0.51%
DAX	13013	36.77	0.28%
ISEQ	6829	11.03	0.16%

Nikkei	21,256	564.85	2.73%
H.Seng	28,693	366.21	1.29%
STOXX600	392	1.97	0.50%

Brent Oil	57.84	2.05	3.67%
Crude Oil	52.16	2.58	5.20%
Gold	1305	20.45	1.59%

Silver	17.4085	0.44	2.58%
Copper	320.9	17.80	5.87%
CRB Index	430.29	0.45	0.10%

Euro/USD	1.1788	0.00	0.41%
Euro/GBP	0.8866	-0.01	-0.77%
GBP/USD	1.3296	0.02	1.17%

	Value	Change
German 10 Year	0.405	-0.04
UK 10 Year	1.387	0.03
US 10 Year	2.2962	-0.06

Irish 10 Year	0.638	-0.06
Spain 10 Year	1.602	-0.08
Italy 10 Year	2.063	-0.05

BoE	0.25	0.00
ECB	0.00	0.00
Fed	1.25	0.00

All data sourced from Bloomberg

Lloyds - Q3/17 results preview

Closing Price: GBp 67.00

Stephen Hall, CFA | Investment Analyst



Key Metrics	2017e	2018e	2019e
Revenue (£'bn)	18.42	18.53	18.51
EPS (£'c)	7.7	7.3	7.2
Price/ Book	1.10x	1.07x	1.04x
Div Yield	5.65%	6.54%	7.14%

Share Price Return	1 Mth	3 Mth	YTD
LLOY LN	2.37%	-2.07%	8.51%

Source: All data & charts from Bloomberg

Lloyds is due to report Q3/17 on the Wednesday the 25th of October. The underlying fundamentals of Lloyds remain strong in our opinion and H1/17 results were overshadowed by a £1.1bn PPI charge. In H1/17, it reported a Return on Tangible Equity (RoTE) of 16.6%, which is ahead of management's 13% - 15% long term target. Management expects to generate a Net Interest Margin (NIM) greater than 2.85% for the FY17 after achieving a NIM of 2.82% in the first half of 2017. We anticipate marginal further progress on its already industry leading Cost/ Income ratio which improved further to 45.8% in H1/17 from 47.1% in Q1/17, and leaves the Group firmly on course to achieve its 45% Cost/ Income ratio target by 2019, which we think it could now be achieved in 2018. The asset quality of its loan book remains strong despite ongoing Brexit uncertainty and management forecasts an impairment charge to be below 20bps for FY17. We expect the Group to generate between 40bps to 50bps of organic capital in the quarter and close to 200bps in the year. A near term headwind to the stock stems from political uncertainty association with the UK's ongoing Brexit negotiations and the chances of a no deal outcome appears to have increased in recent weeks which has seen a renewed weakening in the pound. However, the changes of a rate hike by the Bank of England at its next meeting on the 2nd November 2017 have increased to 82% as the UK's latest inflation reading has risen to 3%, well ahead of the BOE's 2% target. This should be a near term positive to the group. We think Lloyds' consensus 12 month target at GBp 72.29 is an achievable target once Brexit related risks don't materially worsen. Lloyds currently trades at 1.06x FY18e Price/ Book and offers a very attractive dividend yield of 6.6% for 2018.

Smurfit Kappa – Overreaction to read across from peer Mondi

Closing Price: €25.24

Stephen Hall, CFA | Investment Analyst



Key Metrics	2017e	2018e	2019e
Revenue (€'m)	8,545	8,857	8,969
EPS (€)	2.034	2.309	2.391
Price/ Earnings	12.3x	10.8x	10.4x
Div Yield	3.38%	3.59%	3.73%

Share Price Return	1 Mth	3 Mth	YTD
SKG ID	-7.09%	-4.40%	15.50%

Source: All data & charts from Bloomberg

Smurfit's key technical support at €24.08 held last week and its share price closed the week off very strongly. The reason for Smurfit's recent share price weakness of late has been due to its closest peer Mondi Q3/17 trading update, which showed strong price increases weren't sufficient to offset cost pressures while FX headwinds increased which will impact reported earnings. Overall EPS forecasts were revised lower by 2-3% for FY17 for Mondi. This negative sentiment translated across to Smurfit due to heightened uncertainty over whether or not Smurfit can recover operating margins in H2/17 as corrugated box pricing improves. We feel the 12% selloff over a 4 week period was excessive and remain constructive on the earnings growth outlook for the Group and believe Smurfit can re-rate higher into year end and it also firmly fits into our preference for European equity outperformance supported by strong European fundamentals. Smurfit's management team are bullish on the company's outlook saying "it is better positioned today than at any other point in its recent history. Its capital structure, its asset base and its integrated business model continue to strengthen. This will enhance its ability to translate today's market conditions into improved earnings in 2017 and beyond". Post last week's selloff, valuations are also reasonable at 10.8x FY18e earnings, considering the likely recovery in pricing in H2/17. We could see Smurfit holding a 13x – 14x earnings multiple over the medium term. It also offers an attractive dividend yield of 3.6% for FY18e. We think Smurfit's consensus 12 month target price at €29.43 is an achievable target with in the near term, which offers 17% upside potential if achieved.

CRH- Ash Grove deal gets shareholder approval

Closing Price: €31.25

Will Heffernan | Investment Analyst



Key Metrics	2017e	2018e	2019e
Revenue (€'bn)	27.83	27.15	28.32
EPS (€)	1.713	1.927	2.149
Price/ Earnings	18.6x	16.5x	14.8x
Div Yield	2.13%	2.23%	2.37%

Share Price Return	1 Mth	3 Mth	YTD
CRH ID	4.01%	1.2%	-5.64%

Source: All data & charts from Bloomberg

News broke late on Friday that the CRH bid for Ash Grove had been approved by share holders. We had been [guiding](#) that this was the likely scenario. This clears an unwelcome headwind that had been a drag on the stock. The deal is estimated to be 6-8% earnings accretive in 2018. Ash Grove has 8 cement plants (capacity approx. 9mt) 52 ready mix plants, 25 sand & gravel plants and 20 limestone quarries. This deal is likely to mean significant synergies for CRH as it has large overlap with Ash Grove's business and is in fact Ash Grove's biggest customer. Therefore this vertical integration makes sense and further increases CRH's presence in the higher margin US cement market. Ash Grove reported \$1.3bn in revenue and over \$300m in EBITDA in FY16. Multiples are likely to be further improved when synergies between Ash Grove and CRH are taken into account. CRH should retain a strong balance sheet due to the divestment of the Americas Distribution business. Pre-acquisition we believe €36 represented a fair value price based on a US & European weighted multiple. This implies 13.3% upside.

Ryanair – Pilot pay resistance weighing on sentiment

Closing Price: €16.24

Stephen Hall, CFA | Investment Analyst



Key Metrics	2018e	2019e	2020e
Revenue (€'bn)	6.976	7.55	8.097
EPS (€)	1.22	1.37	1.50
Price/ Earnings	13.4x	11.9x	10.9x
Div Yield	0.00%	0.00%	0.00%

Share Price Return	1 Mth	3 Mth	YTD
RYA ID	-1.24%	-10.2%	12.4%

Source: All data & charts from Bloomberg

Ryanair posted new intraday lows last week since the flight cancellation and pilot shortage scandal emerged several weeks ago. Technically, it broke through its 200 day moving average at €16.50 which is a bearish development as analysts continue to downgrade earnings forecasts and target prices on the airline while more stories emerge that several of Ryanair's pilots across its 86 bases have rejected pay increases offer to them which suggests the airline is still struggling to hold onto staff and could see a larger structural increase in staffing costs than the market is anticipating. The next big event for the airline is its H1/18 results which are due to be released on the 31st October. We will be paying close attending to any structural changes to staffing costs management anticipates in the future, whether it announces a new share buyback programme which isn't anticipated by the market which would be a positive surprise if announced, its outlook on yields for Q3/18 (October to December), the impact to forward bookings which would be a short term reflection of reputational damage and whether its maintains its full year 2018 net income guidance. Additionally, Brexit negotiations appear to be making zero progress which is unwelcome news for Ryanair in particular should the UK lose access to the EU's open skies agreement if no deal is achieved. Share price volatility will likely remain high in interim and there is potential for further weakness should management downgrade guidance next week. Post the recent sell off, Ryanair is trading at 11.9x FY19e earnings. Technically, the next key support comes in at €16.00. The consensus 12 month target price has reduced from €19.80 before this scandal to €18.80 as of last Friday. From a long term perspective we remains positive on the airline which should still hold a competitive advantage on costs and fares even after pilot pay structure is resolved.

Amazon - Earnings preview

Closing Price: \$982.91

Will Heffernan | Investment Analyst



Key Metrics	2017e	2018e	2019e
Revenue (\$'bn)	171.13	213.36	256.72
EPS (\$)	11.01	16.29	23.56
EV/EBITDA	26.39x	19.5x	14.66x
Div Yield	0%	0%	0%

Share Price Return	1 Mth	3 Mth	YTD
AMZ US	1.73%	-3.69%	31.57%

Source: All data & charts from Bloomberg

Amazon release Q3 earnings this week. EPS expectations are for \$1.883 (-11%YoY) and total revenue of \$41.444bn (+26.68% YoY). Operating profit is expected to decline by 71% YoY to €161.833m. As is the norm with Amazon this is driven by substantial investment, both in long term projects and seasonally in its retail operations in advance of busiest period. CAPEX is expected to rise by 27% with free cash flow expected to decline by 28% to €1.877bn. EBITDA is expected to be \$3.996bn, up 15.3% YoY. Pre-tax profit is expected to decline 86.9% to \$64.442m. It is a familiar story this quarter with Amazon and the perennial question remains will markets look through increased investment spending, margin pressure and a poor free cash flow number in order to focus on the longer term growth prospects of the company?

Q2 earnings was a substantial miss (40c vs estimate of \$1.42). On that earnings call management guided for increased investing in Q3 in cloud services, fulfilment centres and hiring. It indicated that investors could expect lower operating income in coming quarters (management guidance for Q3 operating income was from minus \$400m to positive \$300m - a wide range which was down substantially on previous guidance). Models were adjusted according with EPS expectations declining 25%. In the immediate aftermath of the earnings release Amazon did sell off and fell 6.6% over the next few weeks. However, it was caught up in a general risk off mood in markets and quickly regained momentum. It is now pricing at 982.91, representing 18.5% potential upside to the Street price target of \$1164.78. The stock is up 2.9% in a month and 31% year to date.

Management has already flagged most of the Q3 negatives to the market so any positive surprises should cause the stock to rally. We would advise clients to pick up on any dips and believe that \$950 - \$970 represents a decent buy in level. We believe that with a stock like Amazon it is important to focus on the longer term story and not place as much emphasis on quarter to quarter results. We continue to believe that the potential areas for Amazon to expand into are numerous and it is a material threat to many established business in a wide variety of sectors. Amazon remains on course to be the long term winner in the online retail space and should have many years of double digit growth ahead.

Cantor Core Portfolio - In Detail

Performance YTD	%	Sectors	Portfolio	Benchmark	+ / -	FX	Portfolio	Benchmark
Portfolio	6.5%	Consumer Discretionary	6%	11%		EUR	63%	54%
Benchmark	5.5%	Consumer Staples	5%	14%		GBP	21%	26%
Relative Performance	1.0%	Energy	5%	6%		USD	16%	20%
P/E Ratio	20.61x	Financials	24%	15%		Currency YTD %		
Dividend Yield	2.6%	Health Care	5%	9%		GBP	-4.3%	
ESMA Rating	6	Industrials	27%	15%		USD	-10.6%	
Beta	0.99	Information Technology	16%	9%				
		Telecommunication Services	0%	3%				
		Utilities	0%	3%				
		Materials	12%	15%				
		Real Estate	0%	2%				

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	YTD Return (EUR)	Weekly Return	Currency Contribution	Total Contribution
ISEQ 20 INDEX	EUR	17	Neutral	32%	5.5%	-0.1%	0.0%	1.1%
UK 100 INDEX	GBP	15	Neutral	26%	4.2%	0.1%	-0.9%	1.2%
S&P 500 INDEX	USD	20	Neutral	20%	4.6%	0.3%	-2.3%	1.2%
IBEX35 INDEX	EUR	14	Positive	6%	12.4%	0.0%	0.0%	0.6%
DAX INDEX	EUR	14	Positive	16%	13.2%	0.0%	0.0%	1.4%
Total				100%			-3.18%	5.4%

Core Portfolio

Weighted Average Contribution

Stock	Currency	Yield*	Hold / Sold	Sector	Weighting	Total Return Local*	Weekly Return	Currency Contribution	Total Contribution
GLANBIA PLC	EUR	1.0	H	Consumer Staples	5%	-9%	0.0%	0.0%	0.3%
GREENCORE GROUP PLC	GBP	3.2	S	Consumer Staples	5%	-16%	0.0%	-0.2%	-1.2%
RYANAIR HOLDINGS PLC	EUR	0.0	H	Industrials	5%	-2%	-0.3%	0.0%	0.5%
INDUSTRIA DE DISEÑO TEXTIL	EUR	2.4	H	Consumer Discretionary	6%	-13%	-0.1%	0.0%	0.0%
DAIMLER AG-REGISTERED SHARES	EUR	5.1	S	Consumer Discretionary	6%	-1%	0.0%	0.0%	0.0%
LLOYDS BANKING GROUP PLC	GBP	5.7	H	Financials	5%	-1%	0.1%	-0.1%	0.3%
AMERICAN INTERNATIONAL GROUP	USD	2.1	S	Financials	5%	-5%	0.0%	0.1%	-0.2%
BANK OF IRELAND	EUR	2.2	H	Financials	5%	-9%	-0.3%	0.0%	-0.7%
ALLIANZ SE-REG	EUR	4.1	H	Financials	5%	17%	0.1%	0.0%	1.4%
FACEBOOK INC-A	USD	0.0	H	Information Technology	4%	15%	0.1%	-0.5%	1.1%
PAYPAL HOLDINGS INC	USD	0.0	H	Information Technology	4%	45%	0.3%	-0.6%	2.1%
ALPHABET INC-CL A	USD	0.0	H	Information Technology	4%	6%	0.0%	-0.4%	0.5%
AMAZON.COM INC	USD	0.0	H	Information Technology	4%	4%	0.0%	-0.5%	0.2%
iShares STOXX Europe 600 Banks ETF	EUR	6.1	H	Financials	5%	3%	0.0%	0.0%	0.1%
GENERAL ELECTRIC CO	USD	4.2	S	Industrials	5%	-4%	0.0%	-0.2%	-0.3%
SIEMENS AG-REG	EUR	3.1	H	Industrials	6%	-9%	-0.2%	0.0%	-0.5%
VINCI SA	EUR	2.9	H	Industrials	5%	7%	0.0%	0.0%	0.4%
SMURFIT KAPPA GROUP PLC	EUR	3.4	H	Materials	6%	2%	0.1%	0.0%	0.2%
ALLIED IRISH BANKS PLC	EUR	2.5	H	Financials	4%	5%	-0.1%	0.0%	0.2%
CRH PLC	EUR	2.2	H	Materials	6%	-8%	0.1%	0.0%	-0.2%
KINGSPAN GROUP PLC	EUR	1.1	H	Industrials	5%	9%	-0.1%	0.0%	1.5%
ROYAL DUTCH SHELL PLC-B SHS	GBP	5.9	H	Energy	5%	18%	0.1%	-0.2%	0.2%
DCC PLC	GBP	1.7	H	Industrials	6%	0%	-0.1%	-0.2%	0.8%
GLAXOSMITHKLINE PLC	GBP	5.3	H	Health Care	5%	-1%	0.0%	-0.1%	0.0%
VERIZON COMMUNICATIONS INC	USD	4.8	S	Telecommunication Services	4%	4%	0.0%	-0.4%	-0.9%
Total					100%			-3.40%	6.5%

*Red Denotes Deletions

*Green Denotes Additions

*Return as of last reweighting 03/05/2017

*Yields are based on the mean of analyst forecast

All data taken from Bloomberg up until 2010/2017.

Warning : Past performance is not a reliable guide to future performance

Warning : The value of your investment may go down as well as up.

From the News - Monday's Headlines

- **Global** Japanese shares hit record streak on Abe victory
- **US** Trump says he supports new top tax rate for the wealthy
- **Europe** What next after Rajoy uses Catalan nuclear option
- **UK** Labour threaten to back Tory rebels on Brexit bills
- **Ireland** Banks to pay compensation to tracker victims by Christmas
- **Dublin** Irish businesses report increased cost pressure due to rising costs

Current Stock Trading News

From a market trading perspective we are long Green REIT, Inditex, Royal Dutch Shell, Glanbia, and Kingspan and the positions remain in the money.

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	Corporate	Corporate	Corporate	Corporate
GKN. State Street. Philips.	Vinci, Caterpillar, McDonalds, BASF. AT&T. Kering, Novartis.	GSK, Lloyds, Boeing, Coca-Cola. Visa. Lufthansa.	Alphabet, Amazon, Intel, Microsoft, Bayer. Twitter. Deutsche Bank. Schneider Electric. Barclays.	IAG, RBS, Total, VW. Exxon. Bank of Ireland.
Economic	Economic	Economic	Economic	Economic
EU Consumer Confidence	DE Manufacturing PMI.	UK GDP Growth. US Durable Goods Orders.	EU Rate Decision. US New Home Sales.	US GDP Growth Rate

Upcoming Events

30/10/2017 HSBC

31/10/2017 Pfizer. Ryanair.

01/11/2017 Paddy Power Belfair. Facebook. Glanbia. Smurfit.

02/11/2017 AIG. Apple. Alibaba. BT. Shell.

03/11/2017 AIB. AirFrance. Kennedy Wilson.

30/10/2017

31/10/2017

01/11/2017

02/11/2017

03/11/2017

Cantor in The Media

- Failure to Inflate - Seeking Alpha - Head of Equity Derivatives and Cross-Asset Strategy at Cantor Fitzgerald - Peter Cecchini - [Click here to listen](#)

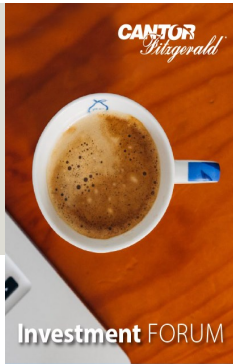
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

- Bank of Ireland:** Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom
- AIB:** Allied Irish Banks plc (AIB) attracts deposits and offers commercial banking services. The Bank offers mortgage, automobile, business, plant and equipment purchase, and lease financing loans, investment banking, securities brokerage, asset management and treasury services, and discounts invoices. AIB operates in Ireland, the United Kingdom, and the United States
- Inditex:** Industria de Diseno Textil, S.A. designs, manufactures and distributes apparel. The company operates retail chains in Europe, the Americas, Asia and Africa.
- 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.
- Siemens:** Siemens AG is an engineering and manufacturing company. The Company focuses on four major business sectors including infrastructure and cities, healthcare, industry and energy. Siemens AG also provides engineering solutions in automation and control, power, transportation, and medical.
- Greencore:** Greencore manufactures and distributes a diverse range of primary foods and related products, food ingredients and prepared foods to the consumer and industrial sectors.
- Daimler:** Daimler AG develops manufactures, distributes and sells a wide range of automotive products mainly passenger cars, trucks vans and buses. The Company also provides financials and other services relating to its automotive businesses.
- Lloyds:** Lloyds offers a range of banking and financial services including retail banking, mortgages, pensions, asset management, insurance services, corporate banking and treasury services.
- AIG:** AIG is an international insurance organisation serving commercial, institutional and individual customers.
- Allianz:** Allianz, through its subsidiaries, provides insurance and financial services.
- Facebook:** Facebook Inc. operates a social networking site.
- PayPal:** PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants.
- Alphabet:** Alphabet provides web based search, advertisement, maps, software applications, mobile operating systems, consumer content and other software services.
- Amazon:** Amazon is an online retailer that offers a wide range of products.
- GE:** General Electric is a globally diversified technology and financial services company.
- Smurfit Kappa:** Smurfit Kappa manufactures paper packaging products.
- CRH:** CRH is a global building materials group.
- Kingspan:** Kingspan is a global market player in high performance insulation and building envelope technologies.
- Royal Dutch Shell:** Royal Dutch Shell explores, produces and refines petroleum.
- DCC:** DCC is a sales, marketing, distribution and business support services company.
- GlaxoSmithKline:** GSK is a research based pharmaceutical company.
- Kerry:** Kerry Group PLC is a major international food corporation. The Group develops, manufactures, and delivers innovative taste solutions and nutritional and functional ingredients.
- VINCI SA:** VINCI is a global player in concessions and construction with expertise in building, civil, hydraulic, and electrical engineering

None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.



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Regulatory Information

Historical Record of recommendation

CRH: We have added CRH to our core portfolio on the 01/01/16, with a recommendation of Outperform

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

Lloyds: We have been positive on Core Portfolio stock, Lloyds, since 01/03/14 and no change has been made to our recommendation since.

Amazon: We have an Outperform recommendation for Amazon since 26/07/13, and no changes have been made since then.

All regulatory disclosures pertaining to valuation methodologies and historical records of the above recommendations can be found on the Cantor Fitzgerald Ireland website here:

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

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