

Tuesday, 21st November 2017

Morning Round Up

Merkel Tells Her German Rivals: Back Me or Face Voters Again

German Chancellor Angela Merkel said she's ready to face voters again to break the country's political stalemate, betting they won't blame her for failed talks on forming a coalition. Merkel made it clear in television interviews that she intends to serve her fourth term and prefers new elections to governing Europe's biggest economy without a majority. Germany's president, Frank-Walter Steinmeier, will start sounding out political parties on Tuesday to see if he can cajole them into an alliance with Merkel. "A minority government isn't part of my plans," Merkel said in an interview with broadcaster ARD. "I'm certain that new elections are the better way." Investors shrugged off the disarray, with both the euro and Germany's DAX stock index rebounding from earlier losses on Monday.

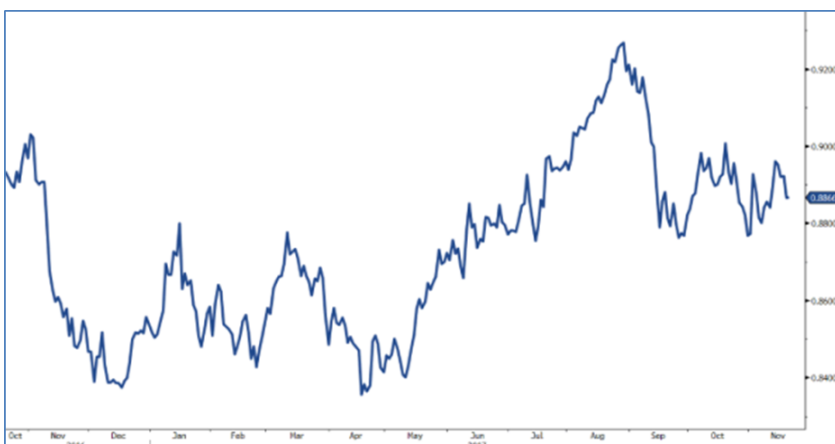
Paris and Amsterdam Win Brexit Races for London-Based EU Agencies

France and the Netherlands won the contests to host two London-based European Union agencies in the first concrete political victories in the battle for Brexit spoils. The EU's banking authority will move to Paris and the medicines regulator will relocate to Amsterdam by the time Britain departs from the 28-nation bloc in March 2019. The decisions cap months of lobbying over applications by 19 cities ranging from Stockholm to Bucharest that sought to lure the European Medicines Agency. The losers in the drawing of lots were the Irish capital for the EBA and Milan for the EMA. The EMA, which evaluates applications for new drugs and oversees the safety of medicines, employs about 900 people and attracts 36,000 visitors a year to London from government, science and industry. The EBA works to align banking rules in the EU and has fewer than 200 employees.

May Prepares New Brexit Offer After Talks With Ministers

Prime Minister Theresa May won the backing of ministers on both sides of her divided cabinet to offer the European Union more money to break the Brexit deadlock. "The U.K and the EU should step forward together," May's office said in a terse statement, indicating that any improved offer on the bill must be matched on the European side with a pledge to start talking about trade. Members of her cabinet's Brexit sub-committee met Monday to thrash out a strategy that would be acceptable to both the pro- and anti-European factions of her senior team. They agreed to double Britain's exit payment offer to 40 billion pounds.

EURGBP - price chart



Source: Bloomberg, CF Research November 2017

Key Upcoming Events

30/11/2017 OPEC meeting

Market View

European equities open marginally lower this morning following political uncertainty in Germany. EURUSD has fallen down to \$1.1750 as a result. The Tech sector in Asia continues to be the driving force behind the recent rally in Asian equities. The pound strengthened as Theresa May agreed to increase the amount it is willing to pay towards the Brexit divorce bill, which should hopefully lead to an eventual discussion on trade. Key market focus today is UK public sector finance, Spanish trade balance & Italian economic outlook. This Thursday is US Thanksgiving, therefore equity trading volumes are likely to reduce significantly in advance of that.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23430	72.09	0.31%	18.56%
S&P	2582	3.29	0.13%	15.33%
Nasdaq	6791	7.92	0.12%	26.15%

Nikkei	22,416	154.72	0.70%	17.28%
Hang Seng	29,818	557.76	1.91%	35.53%

Brent Oil	62.51	0.29	0.47%	10.01%
WTI Oil	56.68	0.26	0.46%	5.51%
Gold	1280	3.39	0.27%	11.57%

€/\$	1.1734	0.0001	0.01%	11.57%
€/£	0.8862	-0.0002	-0.03%	3.83%
£/\$	1.324	0.0005	0.04%	7.29%

	Yield	Change
German 10 Year	0.35%	-0.013%
UK 10 Year	1.26%	-0.033%
US 10 Year	2.36%	-0.009%

Irish 10 Year	0.56%	-0.017%
Spain 10 Year	1.50%	-0.018%
Italy 10 Year	1.79%	-0.022%

Source: Bloomberg, CF Research November 2017

CRH - Solid results & further US acquisition

Closing Price - €30.93

News

CRH released a trading update that continues to show progress despite some weather related headwinds in the US and continued pricing pressures in Europe. Overall sales increased 2% in the 9 months to the end of September to €20.7bn, an increase of 2% also in the quarter. Overall EBITDA for the 9 months to end of September was €2.43bn, an increase of 2% YoY and 2% in the quarter. Importantly, after its US peers had exhibited weakness due to bad weather in Q3, CRH's Americas' performance was reasonably solid. Overall EBITDA for this division was up 2% in the quarter with overall sales up 4%. Cement volumes in this division were up 5% in Q3, a substantially better performance than its US peers. Readymixed concrete was up 7% in Q3, asphalt up 3% and aggregates up 1%. Likewise, management guidance on the UK was better than its peers stating "prices for all products were ahead; cumulative volumes broadly in line with prior year. Lastly from an M&A perspective, management announced they have entered an agreement to certain assets in Florida of Vontorantim Cimentos and Anderson Columbia. This comprises of a 1.0m tonne cement plant, 18 readymixed concrete plants, an aggregates quarry, two block plants and nine gunite facilities. The deal is expected to close in late 2017.

Comment

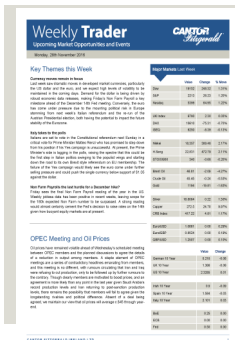
As [we had been expecting](#), CRH's Americas trading was not impacted to the same extent as its US peers and it weathered the storm in Q3 relatively ok. Volume increases were sold and the pricing situation remains robust. The guidance for the UK (approx. 11% of Group EBITDA) was also more positive than its European peers. The general picture across Europe is reasonable volume growth but continued downward pressure on pricing. In our previous meeting with management we had received guidance that this was improving but very slowly. Asia (approx. 3.5% of EBITDA) trading was also poor with 9% drop in sales and EBITDA down 45%. This trend had already been highlighted by management and is expected to continue for the remainder of the year.

The announcement of the acquisition of more assets in the Florida area is welcome. CRH traditionally has not had much of a presence in this high growth region in the US. With these assets and the recent Ash Grove acquisition, CRH now becomes one of the major players in this region. The Anderson and Vontorantim assets are expected to be purchased for approx. \$750m. From a valuation perspective this implies 10x EBITDA excluding any potential synergies that may exist. This continues management's stated goal of recycling capital from lower margin, higher valuation businesses into higher margin, lower valuation businesses. We believe that the market continues to underestimate the true potential of the Ash Grove acquisition which should be 6% - 7% EPS accretive. These new assets have the potential to be 2.2%-2.8% EPS accretive depending on synergies. Management guided that year end net debt, excluding the Anderson and Vontorantim assets, to be in line with last year, which stood at €5.341bn. With FY17 EBITDA guidance maintained at €3.2bn, this implies a FY17 net debt/EBITDA ratio of just 1.6x, a very strong position for further acquisitions.

CRH is currently trading at an FY17 P/E of 18.1x which is in line with its 10 year average and 13.6% discount to its 5 year average of 20.97x. When you apply a correctly weighted multiple CRH should trade at approx. 21.3x, which implies a current valuation discount of 15%. We believe that €36 represents a correct target price for CRH which implies 16.5% potential upside. We maintain our Outperform.

Will Heffernan | 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.

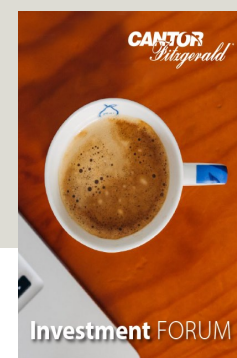
[Click Here](#)



Monthly Investment Journal

Each month our Private Client and Research departments collaborate to issue a publication which highlights the performance of our flagship products, funds and our Core Portfolio, including the Green Effects fund, most recent private equity deals and structured product investment opportunities.

[Click Here](#)



Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

[Click here](#)

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

CRH: CRH is a global building materials group.

Historical Recommendation:

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

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

This material is approved for distribution in Ireland by Cantor Fitzgerald Ireland Ltd. It is intended for Irish retail clients only and is not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. Cantor Fitzgerald Ireland Ltd ("CFIL") is regulated by the Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Where CFIL wishes to make this and other Cantor Fitzgerald research available to Retail clients, such information is provided without liability and in accordance with our terms and conditions that are available on the CFIL website.

No report is intended to and does not constitute a personal recommendation or investment advice nor does it provide the sole basis for any evaluation of the securities that may be the subject matter of the report. Specifically, the information contained in this report should not be taken as an offer or solicitation of investment advice, or to encourage the purchase or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommends that specific advice should always be sought prior to investment, based on the particular circumstances of the investor either from your CFIL investment adviser or another investment adviser.

CFIL takes all responsibility to ensure that reasonable efforts are made to present accurate information but CFIL gives no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. This is entirely at the risk of the recipient of the report. Nor shall CFIL, its subsidiaries, affiliates or parent company or any of their employees, directors or agents, be liable for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this research note constitute CANTOR IRELAND's judgment as of the date of the note but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this research note has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse effect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment.

[Conflicts of Interest & Share Ownership Policy](#)

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising from other CANTOR IRELAND business units including Fund Management and Stock broking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, CANTOR IRELAND is satisfied that the objectivity of views and recommendations contained in this note has not been compromised. Nonetheless CANTOR IRELAND is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this research note, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research note.



Dublin: 75 St. Stephen's Green, Dublin 2. Tel: +353 1 633 3633.

email : ireland@cantor.com web : www.cantorfitzgerald.ie



Twitter : @cantorireland



LinkedIn : Cantor Fitzgerald Ireland