

Tuesday, 27<sup>th</sup> February 2018

## Morning Round Up

### All eyes on Powell

New Fed Chair Jerome Powell gives his first testimony to the House today, in what is a hotly anticipated event. Mr Powell took over the reins from Janet Yellen and at the point of his inauguration, he was widely expected to follow Ms Yellen's previous relatively dovish mantra. However, a lot has happened in the past month. We have seen substantial [equity market volatility](#), yield increases and a significant tick-up in inflation expectations. Mr Powell's testimony will now be closely watched for any hints in deviation from current rate guidance and any move to a more hawkish tone. Currently the market is pricing in 2-2.5 rate hikes this year. The Fed is guiding for three while some notable investment houses are calling for four. Here at Cantor, we believe 2 is almost certain to happen, with the third dependent on H2/17 data, which is likely to see some of the [recent inflation pressures dissipate](#). Mr Powell's prepared statement is released at 1.30pm our time while his testimony is scheduled to begin at 3.00pm.

### May looks increasingly isolated

Theresa May delivers a signature speech on Friday where is expected to add more clarity and specifics regarding the UK's relationship with the EU after it departs the union. In advance of that, there have been some events that have piled even more pressure on her. Firstly, the EU will a draft 100 page treaty text on Wednesday which will outline its vision for the relationship in the future. It contains several positions which are in direct opposition to the current UK stance, most notably on the Irish border, where it leaves out crucial compromise language and explicitly states that as a last resort, Northern Ireland would remain under the EU regulatory regime. This week also saw Jeremy Corbyn, the Labour opposition leader, outline his Brexit vision, which called for a softer exit with the UK remaining in the customs union. Mrs May, who already been facing sustained pressure from the pro-hard Brexit Tories, is now likely to face pressure from the pro-EU Tory rebels, who have already stated that they could join with Labour to force a softer Brexit.

### European banks begin to recruit

We like [European banks](#) as a trade in 2018 and so far results season has backed this up. The majority had strong results with widespread dividend upgrades. In a further sign of management confidence, the top four investment banks have begun to increase staff numbers for the first time since 2015. Credit Suisse, Deutsche Bank, UBS and Barclays all boosted staff in the second half of 2017. This follows about 12,000 job cuts in 2016.

### EURUSD Price Chart



Source: Bloomberg, CF Research February 2018

## Key Upcoming Events

04/03/2018 Italian Election

## Market View

Asian markets were weaker overnight in advance of Jerome Powell's testimony (3.00pm) which will be watched very closely. This was despite a very strong day for US markets which were up 1-1.5%. Markets are likely to be cautious in advance of that testimony. Other important data out today includes German CPI, Eurozone consumer inflation expectations and US durable goods orders.

## Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25709	399.28	1.58%	4.01%
S&P	2780	32.30	1.18%	3.96%
Nasdaq	7421	84.07	1.15%	7.50%
Nikkei	22,390	236.23	1.07%	-1.65%
Hang Seng	31,269	-229.94	-0.73%	4.51%
Brent Oil	67.3	-0.20	-0.30%	0.64%
WTI Oil	63.77	-0.14	-0.22%	5.54%
Gold	1334	-0.05	0.00%	2.37%
€/\$	1.2336	0.0019	0.15%	2.76%
€/£	0.8828	0.0010	0.11%	-0.59%
£/\$	1.3974	0.0006	0.04%	3.41%

	Yield	Change
German 10 Year	0.676	0.024
UK 10 Year	1.528	0.019
US 10 Year	2.872	0.009
Irish 10 Year	1.134	0.013
Spain 10 Year	1.56	0.008
Italy 10 Year	2.015	-0.002

Source: Bloomberg, CF Research Feb 2018

**FBD - Very strong results despite weather headwinds**

Closing Price - €10.45

**News**

FBD released strong operating results this morning beating expectations and returning to paying a dividend. Core operations performance was very good with Gross written Premium up to €372m up 3% on FY 16. The real news came in terms of their Core Operating Ratio (COR), a reported figure of 86% which includes some non-reoccurring items as €15m (5%) driven from the previous year, €5.6m (1.7%) MIBI reserve releases and a net cost of €5.4m due to storm Ophelia. On an adjusted basis, the COR comes in closer to 91% which compares favourably to peers with European sector averages in high nineties. Breaking down the COR into the Loss Ratio (ratio of total losses incurred (paid and reserved) in claims plus adjustment expenses divided by the total premiums earned) improved from 76.4% to 62.9%, adjusting this for non-reoccurring items brings it to 67.6% which is a better reflection of core performance. The Expense Ratio (expenses associated with acquiring, underwriting and servicing premiums by the net premiums earned) was 23.3% an increase of 0.7% due to changes in reinsurance arrangement and depreciation of a new policy administration system. This resulted in an increase in earnings per share (EPS) of 73c to 99c on diluted basis well above consensus estimates of 76c. Costs associated with storm Ophelia came in, on a gross basis, at €10-11m with net costs after reinsurance of €5.4m, this was double the guided costs of €4-6m with net costs guided at €2.5m. Solvency Capital Ratio was also strong at 164% an increase from 126% due to improved profitability and paying down claims reserves. Investment returns were in line with expectations at €9.3m or 1.2% reflecting the current low rate environment and the group's conservative investment portfolio with 94% in cash and bonds. The board have proposed a dividend of 24c per share, which is a return to paying a dividend, and management have advised on a payout ratio of 20%-50% in the longer term. Finally a return on equity (ROE) of 17% was positive and a target of management which has been achieved a year ahead of schedule.

**Comment**

These were a very strong set of results which have been received positively by the market with FBD opening up c. 7%. The real positives are the underwriting business which has performed very strong. The Group's increase in Gross Written Premium (GWP) was largely attributable to agricultural, business and private motor products. A more effective reinsurance program has reduced its exposure to extreme weather events and improved COR. Management are still cautious on the Claims Environment, noting some signs of moderation but remaining difficult. Inflation levels in personal injury settlements of particular concern. Claimant rejection rate is high keeping the cost of claims high. The financial services operation delivered strong profit and has been a focus for management. This business line provides a welcome use of the FBD network in generating revenues outside of underwriting. Finally, investment returns have the potential to deliver sustainable future revenue growth within a rising rate environment. The return of a dividend is very positive and ROE is slightly ahead of schedule. Management have noted Brexit as a significant risk to their customer base but are confident in the sectors ability to adapt in the uncertainty caused. We maintain our Outperform rating.

Pierce Byrne, CFA | Investment Analyst

**Dalata - Strong results with positive guidance on dividend**

Closing Price - €5.78

**News**

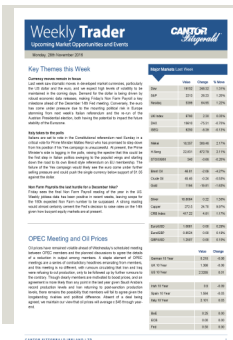
Dalata Hotel Group, the largest hotel operator in Ireland, released its final results for FY2017, marginally beating expectations across numerous metrics. Importantly, the board made the positive announcement of its intention to commence dividend payments of between 20% - 30% from 2018 onwards, with an interim dividend in September 2018. Guidance for the coming year was positive. FY17 adjusted EPS came in at 37.9 cents (+42.5% yoy) beating estimates of 37 cents. FY17 adjusted Net Income adjusted came in at €70.23m (+44.2% yoy) beating estimates of €65.67m. Revenue came in at €348.5m (+19.94% yoy) again ahead of Street estimates of €341.5m. Profitability was positive with EBITDAR margin continuing its improvement, increasing from 41.4% in 2016 to 42.9% in 2017. From a balance sheet perspective hotel assets now stand at approximately €1bn, while Net Debt to EBITDA stands at 2.4x. Occupancy rates, price per room and revenue per room all increased over the year. Through extensions and hotel openings, it anticipates a further 1200 rooms added for 2018 with 1000 more in planning for the following years. Economic slowdown and Brexit remain the key risks for the hotelier. However Brexit exposure is majorically a component of domestic UK hotels (20% of total). It has highlighted the 61% concentration of its revenue generation stemming from Dublin based hotels as a more longer term strategic concern.

**Comment**

In general this was a relatively positive set of results with continued growth, consensus beats and the dividend announcement the major highlights. The concentrated nature of its exposure to Ireland and Dublin particularly are somewhat a concern, however it is a growing presence in the UK with an increased focus on leasing assets. It's current and future position within the Irish market combined with the current economic backdrop should ensure further revenue growth over the short term. The market has reacted well to the aforementioned results, up 1% this morning. We do not currently have a rating on Dalata.

David Fahy | 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)

**FBD:** FBD Holdings plc is primarily involved in insurance underwriting

**Dalata:** Dalata owns and operates hotels

### Historical Recommendation:

**FBD:** We moved FBD from Market Perform to Outperform on the 6th December 2016.

**Dalata:** We do not currently have a rating on Dalata.

[http://www.cantorfitzgerald.ie/research\\_disclosures.php](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.

*We have assessed the publication and have classed it as Research under MIFID II. All charges in relation to this publication will be borne by Cantor*



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

email : [ireland@cantor.com](mailto:ireland@cantor.com) web : [www.cantorfitzgerald.ie](http://www.cantorfitzgerald.ie)



Twitter : @cantorireland



LinkedIn : Cantor Fitzgerald Ireland