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

CANTOR Fitzgerald

Tuesday, 6th March 2018

Morning Round Up

Trump rhetoric continues in the face of retaliatory treats

Trump plans to use steel and aluminium tariffs announced last week as a bargaining chip in the renegotiation of North American Free Trade Agreement (NAFTA). NAFTA was the focus of Trump's ire throughout the campaign and this action will likely play well to his base. Trump has expressed his view that the US is being "ripped off" and is losing $800bn per year on trade. Whether the Trump team are using this as a negotiation play or the White House sees this protectionist strategy as good for US trade in the long term remains to be seen.

The net result is an escalation in tensions in the short term and threatening retaliatory actions from all parties. Canada has responded cautiously, due to their dependence on US trade, expressing their commitment to NAFTA and that they are not willing to walk away from talks, while also putting together a list of US imports that could be hit with tariffs. The EU has been stronger in their tone with EU officials presenting a list of more than 100 US products worth in the region of €2.8bn that could be affected. Trump responded to this, targeting the Autos industry specifically and criticised the EU's current trade barriers calling them tariffs.

China has remained relatively quiet on the issue so far. The specific metal tariffs will not significantly impact Chinese trade but how Beijing responds will be an import factor as fears of a global trade war grow.

What's next for the Italian hung parliament

The established parties on either side of the centre took the brunt of Italian anger in Sunday's election with Matteo Renzi's Democratic party suffering a worse than expected election defeat with Renzi stepping down as party leader and Silvio Berlusconi's Forza Italia falling to be the biggest party within the right wing coalition. The anti-establishment parties, the League on the right and the populist Five Star Movement (M5S), picking up the support of the disheartened Italian electorate.

The options to forming a government look very difficult politically. A populist far right combination of Five Star Movement and the League would be of particular concern to EU officials but both parties ruled out any power sharing while M5S have softened their stance post results. Forza Italia could be included in this coalition to bolster numbers and give the League's Salvini the top job. A rightwing and centre left coalition with Forza Italia, the League and the Democratic party is another combination but the Democratic party's Ettore Rosato has ruled out their involvement in a coalition. The Democratic party could support a left wing government lead by the Five Star Movement but again given their opposing views on Europe it would look difficult to achieve.

Finally fresh elections, if there is no clear majority, the Italian president, Sergio Mattarella, could choose to leave the current centre-left government of Paolo Gentiloni in place, allowing time to set up a temporary government to organise new elections. All of this uncertainty is likely to weight on European equities the longer it drags on.

Source: Bloomberg, CF Research March 2018

Key Upcoming Events

08/03/18 - ECB meeting

Market View

Asian markets were solid overnight and European markets have followed suit at the open. This is on the back of positive action from the US overnight as markets digested tariff implications, which may not be as detrimental as first thought, in the short term at least. Several senior US officials, including Paul Ryan, have expressed opposition to a potential trade war, highlighting that Trump's tariff policies are not universally supported. We will continue to monitor it going forward.

Market focus today will be on the continued rumblings out of Washington along with the ECB meeting on Thursday.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24875	336.70	1.37%	0.63%
S&P	2721	29.69	1.10%	1.77%
Nasdaq	7331	72.84	1.00%	6.19%
Nikkei	21,418	375.67	1.79%	-5.92%
Hang Seng	30,511	624.34	2.09%	1.98%
Brent Oil	65.39	-0.15	-0.23%	-2.21%
WTI Oil	62.56	-0.01	-0.02%	3.54%
Gold	1323	3.00	0.23%	1.56%
€/$	1.2335	0.00	-0.01%	2.75%
€/£	0.8911	0.00	0.04%	0.34%
£/$	1.3842	0.00	-0.05%	2.43%

	Yield	Change
German 10 Year	0.649	0.01
UK 10 Year	1.522	0.03
US 10 Year	2.8717	-0.01
Irish 10 Year	1.072	-0.02
Spain 10 Year	1.462	-0.04
Italy 10 Year	1.97	-0.0330

Source: Bloomberg, CF Research Mar 2018

Glanbia - Positive management meeting with H1 headwinds expected

Closing Price - €14.41

News

Yesterday we met with management to discuss FY17 earnings and outlook for the company. As previously highlighted, results were in line with expectations for FY2017. However lower EPS growth and negative FX guidance saw downgrades for the coming year. Our meeting with management yesterday was quite positive and has assured us that the Glanbia model can sustain above average volume growth and margins, as it has done historically. We received some updates yesterday that are worth noting.

Management confirmed that, driven by the combination of board and shareholder opinion, the dividend pay-out was increased to range between 25% and 30%. This is a 65% increase yoy, bringing it in line with peers. Looking at GPN, it was keen to highlight that revenue, with 38% outside of North America, is more diversified geographically than is generally perceived by the market. Growth has also been stronger outside the US. India was the fastest growing market in 2017, where customized (more affordable) products are sold. Management's guidance on online was positive. It comprises 26% of revenue, which is the fastest growing channel of distribution. Margins, which tend be compressed in online sales, are in fact the same via its Amazon sales. Body and Fit should improve online presence in Europe but will have a lower margin over the longer term. Management has guided that a mid-teen EBITDA margin in GPN is structurally sustainable. They have been pushing their "clean label" USP as one of the multiple justifications for the approximate 5% - 10% premium on peers' products, which management believes won't depreciate. Product range has increased in GPN as they move away from solely Powder solutions. Along with GPN, growth will focus on Nutritional Solutions (NS) part of the business, with management remaining confident on mid to high single digit volume increases in this segment. For NS, margins will be in the mid to high teens and it will also be the part of the business where M&A is most likely to occur in the short term. An already impressive Net Debt to EBITDA of 1.07x is likely to improve further, dropping below the 1x mark in 2018, increasing the capacity for M&A activity over the next few years.

From a pricing perspective the picture was also bright. DSN (Discount Sport Nutrition), a major Glanbia peer, have publically stated they will be putting up prices, with the implication that Glanbia will follow its lead. There has been a slight uptick in prices for GPN, however the dairy part of the business has suffered from deflation, a trend management expects to continue. It was however keen to stress that GPN is no longer a dairy reliant business. Management also clarified that the two major reasons for the stock decline last year were EURUSD movements and bankruptcy fears regarding one of its biggest customers, GNC, in the US. Along with the negative EPS guidance for H1/18, management also guided from some negative headwinds associated with some joint ventures in the first half of the year.

Comment

85% of Glanbia's earnings are in USD, with the result that the stock price and currency have been highly correlated for extended periods of time. In fact, the currency has been the sole driver of the stock price in recent months. With the stock falling 25% since mid-last year, the 8% decline post announcement was an overreaction in our opinion and the stock has since re-rated. Management remain confident in mid – high single digit volume growth along with mid-teen margins. This distinguishes Glanbia from your traditional "food and beverage" companies, which have substantially lower volume growth and margin targets. It must be stated that Glanbia has also suffered from the general rotation out of consumer staples lately, as the market has failed to distinguish Glanbia's unique model and product range from other run of the mill consumer staples.

Importantly, management has consistently highlighted that EPS growth will concentrated in the second half of the year. The market will need to heed this guidance for Q1 and Q2 results. As such, we are not expecting much improvement in earnings until H2/18. But yesterday's meeting gave us the confidence that management will be able to sustain above sector volume growth and margins. At present there is a 14% upside to the consensus price target of €16.29. Glanbia is trading at a 39% discount to its three year average P/E and 17% discount to the overall sector. After reassessing the rating we will be maintaining the stock at an Outperform rating. However with potentially poorer earnings growth in the first half of the year along, with the general sector headwinds, we believe this may be more of a H2/18 story as the market digests further short term negatives.

David Fahy | Investment Analyst

Smurfit Kappa - Takeover proposal rejected by management

Closing Price - €28.62

News

Smurfit Kappa management have rejected an “unsolicited and highly opportunistic approach” from International Paper Company (IP), a US conglomerate. No details regarding the proposal have been disclosed barring that shareholders will receive a combination of cash and a minority holding in the combined business. Management stated that it believes it is in the best interest of the Group’s shareholders to pursue its future as an independent company. It also stated that the proposal fails entirely to reflect the Group’s strong growth prospects and attractive industry outlook.

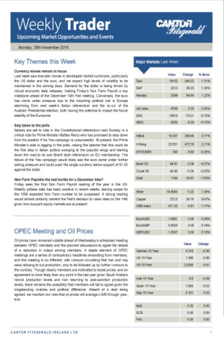
Comment

The new was received well by the market and Smurfit traded up 20% in early trading. Without any details on the proposal, it is difficult to assess whether or not there is much scope for IP to come back with another offer. However, based on management’s statement, we believe that this offer was a substantial degree away from what management considers a fair value for the Group. There is also the added statement by management regarding its wish to continue to run the Group as an independent company.

Prior to this offer, Smurfit had a market cap of €6.5bn. IP’s market cap is approx. €24.3bn. Its current net debt/EBITDA is 3.49x, which suggests some there is not much headroom for an improved offer. Its FCF was reduced dramatically in 2017 from $1.1bn to $366m. This figure was $1.7bn. Cash from operations has also been declining from €3.07bn in 2014 to €1.757bn in 2017. However the majority of this was driven by the $2.2bn acquisition of Weyhauser Pulp Mills. When you take a look at estimated 2018 numbers, there may be some room for IP to come back with an improved offer. Net debt/EBITDA is expected to drop to 2.13x with EBITDA moving from $2.673bn to $4.232bn. Net debt is also expected to decline from $10.14bn to $9.02bn. Without any firm details on the initial proposal it is difficult to gauge whether or not IP will come back with an improved offer. It should also be noted that IP itself has been the subject of takeover speculation, most notably in 2017 with rumours of a bid by the Koch brothers. Smurfit Kappa is likely to trade above 2018 price targets on the back of this news in the short term. We maintain our Outperform.

Will Heffernan | Investment Analyst

Cantor Publications & Resources



Weekly Trader

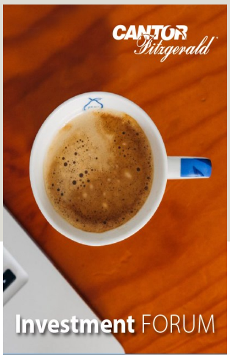
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, 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)

Glanbia: Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

Historical Recommendation:

Glanbia: We changed our rating on Glanbia from under review to Outperform on 06/03/2018

Smurfit Kappa: 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

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 retails 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 recommendations 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 purchased or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommend 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 to 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 affect 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 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