Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Thursday, 8th March 2018

Morning Round Up

Trump's tariffs evolve
Are tariffs the stick to get what Trump wants with NAFTA negotiations? White house have officials raised the possibility of exceptions for Canada and Mexico. Trump is to sign an executive order today, which would see tariffs enacted within the month but should include temporary exceptions for its North American trade partners. Wider comments coming from the White House are indicating a softening stance with commerce secretary, Wilbur Ross, saying "Nobody has seen the details of what the president will sign, so it is premature for people to get upset."

House republicans released a letter, with a 107 signatures, stressing there concerns and calling for a more tailored set of tariffs to protect their allies. Business lobbies are also interjecting with their concerns calling for a softer approach. The ever changing landscape of tariffs, along with the chaos caused by, what feels like, continuous resignations coming from the White House have weighed on markets. However, the softening tone on tariffs caused markets into rally to the close, stemming some of the selloff caused by the Cohn resignation on Wednesday.

Strong numbers coming from Asia
Strong trade data for February coming from China this morning shows exports rose 44.5% from the previous year's figures, compared with analysts median forecast for a 13.6%, and an 11.1% gain on January numbers. Imports grew 6.3%, missing analysts forecast for 9.7%, and down from a 36.9% jump in January. Seasonality can play a big factor in Chinese data, but on a year to date basis the numbers remain strong. The Chinese trade surplus currently stands at $33.7bn, with a surplus of $20.9bn with the US. This data is likely to draw the focus of Trump and his current outlook on trade relations.

As well as Chinese trade data, Japan posted its seventh successive quarter of economic growth yesterday, marking the longest growth streak in 20 years. While quarterly expansion of 0.3% is encouraging, there was some cause for concern in the data. Consumer spending ticked down marginally, the first decline in 7 quarters with only three negative quarters since Q3 2014. Inflation stood at 0.7% which is good in the context of historical performance but still well below the 2% target.

Overall markets have interpreted this data and the softening stance on tariffs positively. Asian markets are up on the day.

ECB Governing Council Meeting
The ECB Governing Council is meeting in Frankfurt today, in what is widely expected to be a somewhat low key affair. One of the key outcomes from the meeting will be the Councils tone on Quantitative Easing (QE), the current stance implies the ECB would boost QE in the event that economic growth faltered but given the economic data coming from the Eurozone this message may shift to a more neutral tone.

In terms of forward guidance, EZ growth is expected to be 2.3%, 1.9% and 1.7% for 2018, 2019 and 2020 with inflation expected at 1.4%, 1.5% and 1.7%. There may be some questions for Draghi around Latvian Central Bank governor who was hit with a bribery scandal in the wake of Latvia's third largest bank being shut down due to US Treasury allegations that the lender had helped facilitate the funding of North Korea's missile programme. Finally, there me be some questions on the Italian political stalemate in the press conference but we do not expect any comment on the issue.

Source: Bloomberg, CF Research March 2018

Key Upcoming Events

08/03/18 - ECB meeting

Market View

US markets finished strongly into the close as the White House confirmed that there may be room for some country specific exemptions to the recent metals tariffs. This would imply that the current administration may not be as resolute in pursuing its tariff agenda as previously thought. Asian equities were up as solid Chinese data and very good Japanese GDP data buoyed investor sentiment. Market focus today will be on the ECB meeting, where there is little expectation of any change, and any further White House developments.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24801	-82.76	-0.33%	0.33%
S&P	2727	-1.32	-0.05%	1.99%
Nasdaq	7397	24.64	0.33%	7.15%
Nikkei	21368	115.35	0.54%	-6.14%
Hang Seng	30655	457.60	1.52%	2.46%
Brent Oil	64.38	0.04	0.06%	-3.72%
WTI Oil	61.1	-0.05	-0.08%	1.13%
Gold	1325	-0.57	-0.04%	1.70%
€/$	1.2384	-0.0027	-0.22%	3.16%
€/£	0.8930	-0.0002	-0.02%	0.55%
£/$	1.3869	-0.0027	-0.19%	2.63%

	Yield	Change
German 10 Year	0.666	0.011
UK 10 Year	1.503	0.009
US 10 Year	2.881	-0.002
Irish 10 Year	1.09	0.021
Spain 10 Year	1.46	0.012
Italy 10 Year	2.077	0.122

Source: Bloomberg, CF Research Mar 2018

Smurfit Kappa - Management cites €40 the level to "engage" with IP Closing Price - €36.00

News

Media reports yesterday stated that Smurfit management are likely to engage with International Paper (IP) if it returns with an acceptable offer above €40 a share. This was in line with our original thinking that IP would have to get closer to €40 before a proposal would be seriously considered. The reports cited a source familiar with the matter but who did not wish to be identified. IP's original proposal was for €36.54 a share, with €22 in cash and the remainder in shares.

Comment

IP's first offer had approx. 60% in cash. If you apply the same logic to the €40 level, it works out at €24 in cash. We do not think this would be sufficient for Smurfit shareholders and expect that IP would have to increase the cash element of its proposal. A €40 offer implies an overall market cap of €9.48bn. This gives an estimated FY18 EV/EBITDA ratio of 6.91x. which in our opinion is too low considering Smurfit's growth prospects, solid balance sheet and peer & sector multiples. The caveat to this is that we have no visibility on what Smurfit management consider a fair multiple for the business.

When you apply an EV/EBITDA multiple of 7.5x, it implies a price of €43. If it were a 70% cash bid, that would mean cash per share of €30.1, a level that we think some major Smurfit shareholders would be more comfortable with. It should be noted that some of the top shareholders in Smurfit include a US hedge fund and several sovereign wealth funds, whom in our opinion would prefer as large a cash component as possible. It would also result in a manageable net debt/EBITDA for the new combined entity. So from a balance sheet perspective it is not too much of a stretch.

Please note all of the above estimates are purely speculative. There are several moving parts that we have no clarity on, including management's own valuation of the business, percentage cash element and the nature of IP's financing constraints, that are materially significant and would influence any follow up proposal. We will await any further developments and reassess then.

William Heffernan | Investment Analyst

Irish Continental Group - FY17 results indicate solid performance Closing Price - €5.75

News

Irish Continental Group (ICG) announced positive FY17 earnings results this morning. Revenues over the period were €335.1m (up 3% yoy), above analyst estimates of €331m. EPS came in at 44.1c, up from 34.1c and ahead of estimates. EBITDA as anticipated was down by 3% since last year but above consensus estimates. This decrease came as a result of an €8m rise in fuel costs (25% increase yoy). Operating profit of €89m (up 42% yoy) was impressive coming in above analyst estimates of €58m. This was in part aided by the €24.9m profit after tax from the sale MV Kaitaki. Volumes were positive with RoRo freight (up 0.5% yoy), Cars (up 2.4% yoy), Container (up 5.9%) and Port Lifts (up 3%) all increasing. From a balance sheet perspective, it was positive with a €39.6m net cash position and a net retirement benefit surplus of €4.7m. Over the year, total dividend was 12.16c an increase of 5% from 2016.

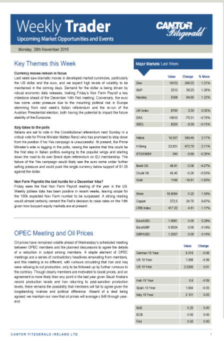
During the first two months of 2018, Irish Ferries carried 35,600 cars up 9.1% while the number of passengers carried increased to 135,500, up 4.5% compared with the same period last year. Container and Port Lifts increased by 4.6% and 5.7% respectively. Bad weather during January and February has hampered conventional sailings, decreasing 9% yoy. Irish Ferries carried 43,800 RoRo units down 3.3%. Despite Brexit headwinds, management is confident on the economic outlook for the space, noting the group is set to benefit from the introduction of the new cruise ferry MV W.B Yeats in the coming summer. It was announced on the 2nd of January 2018 that the group has entered into an agreement with the German company Flensburger Schiffbau-Gesselschaft (FSG) whereby FSG has agreed to build a cruise ferry for ICG at a contract price if €162m scheduled for delivery during 2020. The ferry is being built specifically for the Dublin Holyhead route increasing both freight and tourism capacity available. It will be the largest cruise ferry in terms of vehicle capacity in the world. The €15.5m sale of the HSC Jonathan Swift is also in the pipeline for this year.

Comment

Overall these results were solid and the market has reacted well this morning, with the stock up by 1%. ICG has recorded impressive volume growth across segments, an improvement to an already solid balance sheet and growth in revenues. The excellent management of its fixed assets has added to an impressive profitability number, which had been dampened by the rise in the cost of fuel. The group ambition for further growth is clearly evident with more projects coming on stream. Brexit remains the major uncertainty in the medium term. At present we maintain out Outperform rating and will update again post our meeting with management.

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.

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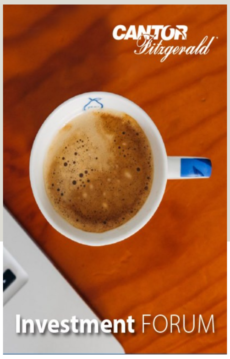

Investment Forum

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

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)
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
Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

Historical Recommendation:
ICG: We have been positive on ICG's outlook, since 07/03/13 and no change has been made to our recommendation since then
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

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