

Friday, 4th May 2018

Morning Round Up

Local election disappointing for Labour and Corbyn

Labour will be disappointed with performance in the English local elections this week as the Tory party benefit from a collapse in the UKIP vote. Labour had been targeting gains in the boroughs of London, largely on the back of its Brexit stance. As the votes are being counted, with about two thirds of the seats filled, it looks like Corbyn will not make any significant gains as the Tories will avoid a haemorrhaging of support typically inflicted on the governing party. Failure to make gains this week will put Corbyns leadership in question as Labour will undoubtedly be assessing Corbyns ability to lead the party into the next general. If the party loses confidence in the leadership, a change will likely be made sooner rather than later. Labour has proven to be a very weak opposition to Theresa May's Tories. As a result the hard-line Brexit faction within the Tory party has been able to dominate the Brexit agenda. Continued weakness from the opposition will likely see this trend to continue and probabilities of a harder Brexit increase.

European Banks

A wave of European banks reported Q1 earnings this morning. Revenue growth was poor with BNP and Soc Gen both reporting declines in revenue, mainly due to lower investment banking revenues, while HSBC reported revenue growth mostly attributable to its Asia business. Despite lack of revenue growth, all three banks managed to beat expectations on earnings. Markets will likely focus on outlook with investment banking revenues under pressure as well as guidance on expected settlements with the Department of Justice (DoJ).

Non Farm Payrolls

The market will keenly watch the announcement of US Non Farm payrolls which are out this afternoon. The average hourly earnings figure will be again brought into the spotlight with expectations of 2.7% increase year on year. The result as ever will have implications on the pace of the FED planned hiking cycle. Ahead of the announcement, the dollar has strengthened toward year to date highs.

One Year Dollar Index



Key Upcoming Events

04/05/2018 Non Farm Payroll Data
30/06/2018 US Tariff Exemption Deadline

Market View

US markets rebounded from 1% declines during the session to finish the day marginally down. Markets found support at their 200 day moving average, which has provided downside support five times since February. US 10Y yields fell 2bps, as the market anticipates US employment data and considers this weeks FOMC meeting. Asian markets sold off as trade talks between the US and China continue. European yields were down sharply yesterday on the back of poor inflation data. European markets are expected to open positive this morning.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23930	5.17	0.02%	-3.19%
S&P	2630	-5.94	-0.23%	-1.64%
Nasdaq	7088	-12.75	-0.18%	2.68%
Nikkei	22,473	-35.25	-0.16%	-1.28%
Hang Seng	30,054	-386.87	-1.28%	0.02%
Brent Oil	73.58	-0.20	-0.27%	9.80%
WTI Oil	68.37	-0.09	-0.13%	13.11%
Gold	1312	-2.52	-0.19%	0.52%
€/\$	1.1965	-0.0019	-0.16%	-0.30%
€/£	0.8827	-0.0006	-0.06%	-0.61%
£/\$	1.3556	-0.0013	-0.10%	0.36%

	Yield	Change
German 10 Year	0.531	0.004
UK 10 Year	1.39	-0.002
US 10 Year	2.946	-0.004

Irish 10 Year	0.947	0.007
Spain 10 Year	1.25	-0.002
Italy 10 Year	1.725	-0.003

Source: Bloomberg, CF Research May 2018

Smurfit Kappa Group - Encouraging numbers but no update on takeover bid Closing Price - €34.36**News**

Prior to the AGM today, Smurfit Kappa Group released a solid Q1/18 trading update. However, there was no mention of the potential takeover bid from International Paper. Good demand led growth across most markets resulted in revenue growth of 7% yoy to €2168m. EBITDA grew by 22% yoy to €340m. EBITDA margin was 15.7%, an increase of 2.7% since the first quarter of 2017. This was driven by volume growth, improved selling prices and lower average recovered fibre prices. Return on invested capital (ROIC) increased to 16.1% equalling the previous record. From a regional perspective, Europe experienced solid growth despite adverse weather conditions. This was aided by corrugated volume growth of 4% (or 3% net of acquisitions) combined with price recovery in the first quarter. Management expects additional price recovery for the remainder of 2018 as it recovers the latest containerboard price increases. It expects containerboard markets to remain tight into the foreseeable future. In the Americas margins improved strongly. A proposed final dividend for 2017 of 64.5c, up 12% yoy, is payable on of the 11th of May.

Free cash flow was up marginally since the same period last year. Net debt to EBITDA improved to 2.2x, down from 2.3x in Q1/17 and 2.4x in Q1/17. The group maintains its medium term objectives, announced in February, of reducing the Net debt to EBITDA to between 1.75x and 2.5x and to target a return on capital employed (ROCE) of 17%. In addition, with the aim of increasing growth across business segments, it announced a €1.6bn capital expenditure plan over the next four years. This includes €230 already spent, with the aim of €600m by year end. Tony Smurfit was quite optimistic in his comment, highlighting his expectation of executing on the groups medium term plan and the continued corrugated price recovery. However noting that recovered fibre pricing remains uncertain.

Comment

Altogether a positive set of results as revenue grew, profitability increased, pricing improved in segments, the balance sheet improved while Tony Smurfit was quite optimistic in his outlook. Importantly the group announced a significant capital expenditure program while reiterating their focus on the medium to long term goals. Interestingly the [potential takeover](#) from International Paper was not mentioned. The market opened up to the news this morning however its was relatively muted. Today's AGM will provide investors more of an insight into the future for the company.

David Fahy | Investment Analyst

FBD Holdings - Sparse detail in Q1 trading update

Closing Price - €11.30

News

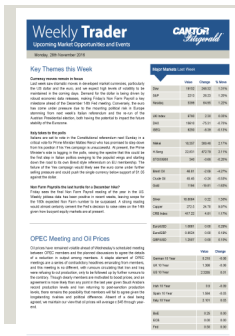
FBD released a very sparse trading update this morning, which is a snippet from Chairman's address to the annual general meeting. The statement reported performance as being "solid" but highlighted the bad weather year to date as a headwind. It has added more specific guidance on the net impact of Storm Emma, which initially was €6-8m, and now is marginally less than €7m. It went on to reiterate underlying profitability as being "sound" with a focus on underwriting discipline. Headwinds highlighted in the statement include low interest rates hurting investment returns and higher than expected claims related to prolonged bad weather. Finally the statement confirmed modest growth in customers and premiums so far this year as well as the opening of a new Baggot Street branch location expected in June.

Comment

Given the lack of detail in the update we would not expect any significant reaction from markets today. The statement included a mix of updates. Performance of the reinsurance program was a particular highlight, as net claims on Storm Emma were contained at €7m. Other positives included growth in customers and premiums; although the phrase "modest" was used suggesting growth may be slightly behind guidance of "in line with GDP". The opening of the Baggot St Branch will hopefully drive brand awareness in Dublin amongst both the retail and SME business lines. The claims environment looks to be more challenging in 2018 due to bad weather. This will make achieving a Combined Operating Ratio (COR) in low 90s more difficult. A more detailed release will be required to fully assess the impact of the bad weather, which is not expect until it reports half year performance in August. We maintain our outperform rating

Pierce Byrne, CFA | Investment Analyst

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

FBD: FBD Holdings plc is primarily involved in insurance underwriting

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

Historical Recommendation:

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

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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