Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Tuesday, 15th May 2018

Morning Round Up

Vodafone - Strong results but unexpected CEO departure

Vodafone posted encouraging operating results this morning but blindsided the market with the announcement that current CEO, Vittorio Colao, who has driven the business for the past 10 years, will step down. Vodafone managed to boost operating profit by 15.4% to €4.3bn despite lower revenues. The top line declined by 2.2% due to FX moves and the deconsolidation of the Dutch business. Increased traffic in mobile data in Europe along with significant uptick in usage in the AMAP (Africa, Middle East, and Asia Pacific) region. The acquisition of Liberty Global assets allows it the scale to expand in the fixed line services in Europe. Free cash flow was very strong at €5.4bn pre spectrum costs, ahead of management's target of €5bn allowing for an increase in dividend by 2% to 10.23c per share (15.07c for the full year).

The news on the CEO has caused the stock to open almost 4% down this morning, as Mr Colao has proven to be an important figure in the development of Vodafone over the past 10 years. It is encouraging to see that one of his direct management team is taking the reins. However, this change adds a level of uncertainty to Vodafone's future at such a critical time. We will have a more detailed note tomorrow after the analyst's call.

EasyJet - Strong results for overall sector

Easyjet released a positive set of H1/18 results this morning. Revenues increased by 19.5% to £2,183m. This was driven by a 9% increase in the number of passengers. Revenue per seat grew by 10.9%. The load factor grew by 0.9% to 92%. Looking forward, it guided for profit before tax for FY18 to be between £530m and £580m. This considerably above street estimates of £493m, which should lead to upgrades. Forward bookings are ahead of last year at 80% for Q3 (summer months) and 57% for H2. It anticipates 5% growth in H2 (ex Tegel) and revenue per seat to be slightly positive reflecting disciplined market capacity growth. This is a positive read through for Ryanair who report its FY18 results next Monday. Earnings upgrades, lower market capacity growth and positive guidance on revenue per seat are all important. Interestingly, Easyjet management unveiled its strategy to enhance it propositions in holidays and customer loyalty. This is something Ryanair is a lot further down the road on. In summary solid results with a positive read through for Ryanair.

Vodafone Share Price

Source: Bloomberg, CF Research May 2018

Key Upcoming Events

30/06/2018 US Tariff Exemption Deadline

Market View

A risk off mood in Asia continued into Europe this morning with European equities opening down. This was mainly driven by some poorer economic data and increasing tensions in the Middle East. Investor focus will now turn to a meeting in Washington this week between US and Chinese trade officials. The White House has given mixed messages on trade lately so the market is looking for clarity. Elsewhere oil moves up above $71 dollar a barrel on reduced supply and those Middle East tensions.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24899	68.24	0.27%	0.73%
S&P	2730	2.41	0.09%	2.11%
Nasdaq	7411	8.43	0.11%	7.36%
Nikkei	22,818	-47.84	-0.21%	0.23%
Hang Seng	31,152	-389.05	-1.23%	4.12%
Brent Oil	78.41	0.18	0.23%	17.26%
WTI Oil	70.96	0.00	0.00%	17.44%
Gold	1310	-3.30	-0.25%	0.57%
€/$	1.1919	-0.0008	-0.07%	-0.72%
€/£	0.8805	0.0006	0.06%	-0.86%
£/$	1.3537	-0.0019	-0.14%	0.18%

	Yield	Change
German 10 Year	0.62%	0.011%
UK 10 Year	1.48%	0.011%
US 10 Year	3.02%	0.013%
Irish 10 Year	1.02%	0.004%
Spain 10 Year	1.31%	-0.018%
Italy 10 Year	1.90%	-0.026%

Source: Bloomberg, CF Research May 2018

Paddy Power - Positive US Supreme Court Ruling

Closing Price - €90.00

News

Yesterday afternoon, the US Supreme Court overturned the federal ban on sports betting (PASPA), meaning individual states will have the power to regulate sports betting for the first time. PASPA was declared unconstitutional in a 7-2 ruling, removing the 1993 federal law prohibiting the vast majority of states from authorising sports betting. New Jersey, which petitioned the Supreme Court, may legally be taking bets on sporting events within weeks, with Delaware likely to follow soon after. This potentially opens up a whole new market for Paddy Power (PPB) and the sports betting sector. PPB's and William Hill's stock price rose over 12% and 10% respectively yesterday on the news.

Comments

This is a significant decision for the global gambling industry, as a somewhat untouched market is on course to be opened. Without doubt it is a positive for the PPB. However with a decision like this there are many unknowns. The estimated number of states that will legalize sports betting ranges from 21-40 over the next 3 years, William Hill management has estimated 12 within three years. The size of the market itself is difficult to quantify yet with estimates ranging from $2bn to $5bn dollars in the next 3 to 5 years, while longer term estimates look more like $10bn. Tax rates are unknown and may vary significantly. An on-the-ground presence may be required for licensing in each individual state. The intrinsic nature of the wagers will be unknown, as is the ability to bet across states. It looks like sporting organisations will look for a share of the revenue, with the NBA and MLB already suggesting an integrity fee. What we do know is that Paddy Power has been preparing somewhat for this outcome in the US through its fantasy sports business, its online casino in New Jersey and its horseracing TV network TVG.

Overall this is a welcome result for PPB, which has had quite a difficult time of late. Recent results have been underwhelming while regulatory headwinds in the UK and Australia are affecting the outlook for the industry. The news has led PPB to reach its consensus price target in just one day yesterday, suggesting little short term upside as analysts work out the numbers and adjust estimates. However it is likely that there will be earnings upgrades on the stock once this decision is assessed. The extent of this upgrade is difficult to quantify currently. We are changing our outlook to Under Review as we speak to management and look to flesh out some numbers around this decision.

David Fahy | Investment Analyst

Allianz - Solid Q1 results

Closing Price - €190.36

News

Allianz posted strong results this morning for Q118 with top line revenues up 0.7%. All three major segments contributed to revenue growth. Operating profits were down by 6% YoY or €176mln with €142mln attributable to FX movements. Basic earnings per share (EPS) for the quarter was €4.46 with diluted EPS €4.40 well ahead of estimates of €4.00. Annualised return on equity (ROE) for Q1 came in at 13.8% on the back of lower restructuring costs and an improving balance sheet. Allianz remains one of the strongest capitalised insurers with a solvency II ratio at 225% outside the upper range of guidance. On a segment level, Property and Casualty (P&C) posted 1.1% growth in gross premium written with improvements on bath pricing and volume in the business. The segment produced improved underwriting results despite higher NatCat losses due to storms this winter with a combined ratio 94.8%. The Life business posted an operating loss, despite increasing revenues and improving margins. This was due to increased market volatility and FX exposure of their US business. Asset management reported increased operating earnings but faced a currency and market volatility headwind causing assets under management (AuM) to fall to €1,429. The segment posted an improvement in its cost income ratio coming in at 61.9% versus 63.3% for Q117.

Comments

Allianz posted positive results this morning which maintains the narrative of a strong and efficient insurer. Management grew the business across the board while improving profitability as the combined operating ratio, the new business margin and the cost income ratio all improved on Q117. Market volatility and FX exposure continue to be a headwind for the sector along with lower investment returns. However, its ability to generate cash flow and the attractive pay-out ratios, which we expect to increase, make it one of the best defensive names.

Pierce Byrne, CFA | Investment Analyst

DCC - Solid FY results with further acquisitions likely

Closing Price - £72.20

News

DCC released solid FY results that highlight a very strong balance sheet and significant runway growth into the future. Overall revenue came in at £14.264bn vs estimate of £13.894bn. Group operating profit came in at £383.4m (+11.1% yoy), a 4.6% beat on consensus est. £366m and a 1% beat on the company compiled estimate of £379m. Adj. EPS cane in at 317.5p (+10.8% yoy), 1.8% ahead of est. 312p. Dividend per share (DPS) came in at 122.98p (+10% yoy), a strong beat on est. 111.8p (payable on the 19th July). Free cash flow (FCF) was also strong at £328.1m vs est. £238.96m. FCF conversion was 85%, down from 114% in 2017 due to increased CapEx, but still a strong number. Return on capital employed (ROCE) was a strong 17.5%. DCC ended the year with £542.7m in debt, give a net debt/EBITDA figure of 1.1x. This was pushed up from 0.3x at the end of the previous year by the large acquisition spend (£691m) but remains a very solid number.

From a divisional perspective the picture was generally solid with some weakness in LPG being offset by growth in other divisions. LPG like-for-life (LFL) volumes grew by 4.7% for the full year vs 1% in H1/18 results. Overall operating profit in this segment was up 4.4%. This was achieved despite rising input costs and continued organic investment in its French network. Retail and Oil was particularly strong with operating profit up 20.4% yoy versus 2.9% in H1. The business benefitted from integration of acquired assets and colder weather in the UK. Operating profit in Healthcare was up 11% yoy with DCC Vital performing strongly. Technology also performed well, growing operating profit by 16.3% yoy.

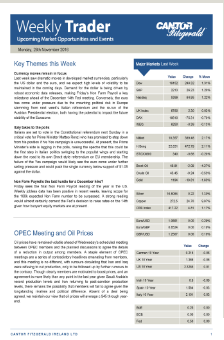
Regarding future acquisitions, management stated recent acquisitions “reflect our strategy to expand our geographic footprint over time, as evidenced by DCC LGP’s first acquisitions in the US and Asia”. Management expects FY19 to be another strong year of profit growth and development.

Comments

This was a solid set of results that continues to highlight the ability of DCC management to continually drive growth. There is nothing in this release that would suggest any changed to current forecasts (FY19 EPS growth +16%). These estimates excluded any M&A activity that management may carry out during the year. Considering the level of cash available (£963m) and the and the strength of its balance sheet and financing arrangement, we would expect management to continue to be accretive, in particular in the US and Asia LPG markets. The dividend increase represents the 24th consecutive year of dividend growth since DCC listed in 1994. We would expect this trend to continue. We maintain our Outperform rating and advise clients to pick up the stock on weakness.

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.

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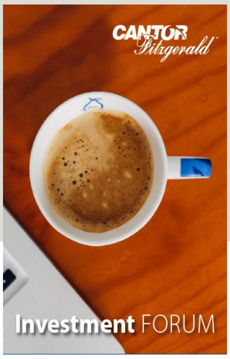

Investment Forum

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)

Vodafone: is a mobile telecommunications company providing a range of services, including voice and data communications.

DCC: DCC is a sales, marketing, distribution and business support services company.

Allianz: Allianz, through it subsidiaries, provides insurance and financial services.

Ryanair: Ryanair plc provides low fare passenger airline services to destinations in Europe.

EasyJet: EasyJet plc provides low fare passenger airline services to destinations in Europe.

Historical Recommendation:

Ryanair: Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then

EasyJet: We currently do not have a rating on EasyJet

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated.

Allianz: We have been positive on Core Portfolio stock, Allianz since 24/04/14 and no changes have been made to the recommendation since then

Vodafone: We have been positive on Vodafone's outlook since 04/02/14 and no changes have been made to this recommendation in the last 12 months

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