

Thursday 17th May 2018

Morning Round Up

UK clamps down on FOBTs

The UK Department of Digital, Culture, Media and Sport has announced it will reduce the maximum bet allowed on [Fixed Odds Betting Terminals \(FOBTs\)](#) from £100 to £2. This decision had looked to be coming for some time with The Times all but confirming its implementation back in April. The news had therefore already been somewhat reflected in the price. Estimates are that the stricter limit could lead 4,000 betting shops to close along with thousands of job losses. The effect on revenue will vary depending on exposure. Paddy Power Belfair (PPB) has said it equates to about -2% to -2.6% on group revenue. William Hill, who has considerably more FOBT exposure, would be closer to 25%. Importantly within the statement the Gambling Commission will look to tighten rules on age verification and affordability checks. Regulation continues to act as a headwind for the bookmaking industry in current markets.

Brexit Shenanigans

Media reports this morning have indicated that the UK is intending on telling the EU that it is prepared to stay in the customs unions beyond 2021. A Brexit sub-committee has decided that if the technology to [operate borders](#) is not in place by 2021, the UK will stay in the common market until it is available. Ministers signed off on the plan on Tuesday with noted hard Brexit advocates Michael Gove and Boris Johnson reluctantly accepting the plan. Today UK leaders meet in Sofia with Theresa May facing pressure to come up with solutions, having recently admitted her two previous solutions would not work. Sterling has had a rough time of it lately with that and [numerous defeats](#) for the Prime Minister's Brexit bill in the House of Lords. However if this media report is true, it is likely to be positive for sterling and would give some [degree of certainty](#) to the BOE over the next few years, at a time when it is stuck between a [rock and a hard place](#). Sterling opened up against all the major currencies this morning.

Smurfit Deal Update

Yesterday the Irish Takeover Panel set a deadline of 7am on the 6th of June for International Paper to announce whether or not it will make a binding bid for Smurfit. IP management stated it is willing to provide a "mix and match" facility, allowing shareholders a larger or smaller proportion of cash or IP shares than offered in its previous proposals. It also stated that both managements should meet to discuss synergies (currently estimated at \$450m) and that it would implement a secondary listing for its stock on the LSE in order to accommodate European shareholders. Lastly, it confirmed it would not mount a hostile bid for the Group. Smurfit management has since reiterated its rejection of the IP proposal, stated it is "significantly below the Board's assessment of the Group's true intrinsic worth". At a Goldman Sachs conference yesterday, IP CFO Glenn Landau stated that "quite frankly we do not understand why Smurfit Kappa's Board is depriving their shareholders of this opportunity". As we had [expected](#), there is still a significant gulf between the two managements, with the deal looking precarious. Smurfit fell 5% yesterday on the news.

Key Upcoming Events

30/06/2018 US Tariff Exemption Deadline

Market View

Stocks in Asia fell slightly overnight as the 10 year US treasury yield rose above 3.1%. European markets opened flat this morning while the US market finished up. The pound appreciated on reports that the UK might have reached an agreement on a last stop option on the customs union. The Euro depreciated yesterday as it was reported that Italy would be seeking some form of debt forgiveness. Brent oil is now up to \$79.5 a barrel.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24769	62.52	0.25%	0.20%
S&P	2722	11.01	0.41%	1.83%
Nasdaq	7398	46.67	0.63%	7.17%
Nikkei	22,838	121.14	0.53%	0.32%
Hang Seng	31,031	-79.64	-0.26%	3.71%
Brent Oil	79.52	0.24	0.30%	18.92%
WTI Oil	71.68	0.19	0.27%	18.64%
Gold	1290	-0.90	-0.07%	-1.00%
€/\$	1.1819	0.0011	0.09%	-1.55%
€/£	0.8736	-0.0017	-0.20%	-1.64%
£/\$	1.3529	0.0043	0.32%	0.12%
			Yield	Change
German 10 Year			0.63	0.024
UK 10 Year			1.539	0.036
US 10 Year			3.111	0.015
Irish 10 Year			1.052	0.021
Spain 10 Year			1.41	-0.005
Italy 10 Year			2.111	-0.006

Source: Bloomberg, CF Research May 2018

Source: Bloomberg, CF Research May 2018

AIB - NPL Portfolio Sale

Closing Price - €4.96

News

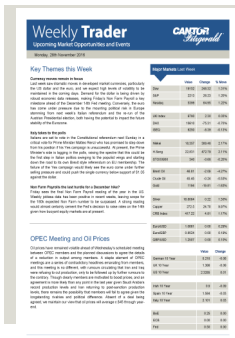
AIB announced the sale of a portfolio of non-performing loans this morning with a gross balance sheet value of €1.1bn. AIB will receive a cash consideration of €800mln or 72c on the euro. Finally, the deal was capital accretive, meaning it will improve the banks' capital ratio. The portfolio included loans in significant arrears with c.90% in arrears for over 2 years and c.70% in arrears for over 5 years. The portfolio does not contain any private dwelling houses (PDH) or family farm homes. The announcement noted that €400mln of debts originally in scope was removed during the sales process as customers engaged and solutions were put in place. Finally, the portfolio was sold to an Irish regulated entity Everyday Finance DAC.

Comment

This is a positive development as AIB work towards reaching its target of European average non-performing exposure (NPE) of 5% of gross loans by 2019. Taking AIB's gross loans of €63.3bn for FY17, this would imply an NPE balance of €3.1bn. Allowing for some loan growth this puts a target range of €3-3.5bn NPE by 2019. With today's announcement, along with encouraging figures from the [Q1 trading update](#), current NPE stands at €8.1bn. This leaves management with some €5bn to work through over the next 12-18 months. Investors may be somewhat disappointed that management have switched from the original rumoured strategy of selling a large €4bn gross value portfolio, to executing the deals on a more piecemeal basis. However, if management can achieve terms in line with this morning's transaction on future portfolio sales they will be creating value for shareholders. We maintain our Outperform rating.

Pierce Byrne, CFA | 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)

Paddy Power Betfair: Paddy Power Betfair Public Limited Company is a betting and gaming company. The Company provides online betting and gaming products.

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

AIB: Allied Irish Banks plc (AIB) attracts deposits and offers commercial banking services. The Bank offers mortgage, automobile, business, plant and equipment purchase, and lease financing loans, investment banking, securities brokerage, asset management and treasury services, and discounts invoices. AIB operates in Ireland, the United Kingdom, and the United States

Historical Recommendation:

Paddy Power Betfair: Currently outlook is Under Review

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

AIB: We moved our rating from under perform to out perform on the 23/06/2017

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 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 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 web : www.cantorfitzgerald.ie



Twitter : @cantorireland



LinkedIn : Cantor Fitzgerald Ireland