

Friday, 13th July 2017

Morning Round Up

US Banks kick of Q2 earnings season

JP Morgan, Citigroup and Wells Fargo all report earnings for Q2 today. With earnings expectations set at 20% year on year (yoy) for the S&P 500, and while we expect financials to deliver on this, the market will be taking a closer look at results. Credit growth and credit quality will be of particular interest as well as management's views on the impact of trade tensions on credit demand in the US and the wider health of the credit sector.

Ryanair disputes and Laudamotion gets approval

Yesterday evening IALPA gave notice that it intends to stage two further one day strikes on July 20th and July 24th. According to the union, the decision comes on the back of a failure to agree on the terms of a joint working group that could help parties agree on a fair and transparent method to govern base transfer arrangements. Since yesterday morning we have seen **Ryanair (Outperform)** move up 5% as the market reacts to the fallout. In our opinion the current price represents significant value for investors, however headlines on industrial action will drive returns in the short term. Separately and on a positive note, the EU commission has approved Ryanair's 75% acquisition of Laudamotion. Ryanair has been awaiting approval since last February. The acquisition, which will give further access to the Austrian and German market was welcomed by the market.

UK publishes white paper on Brexit

Theresa May published her white paper setting out the relationship the UK seeks with the EU post its exit in March. The document sets out a soft Brexit position which maintains a "free trade area" for goods that would require the UK to maintain EU standards on goods, addressing the border/customs issues but at the cost of limiting the UK's ability to negotiate independent trade agreements with parties outside the EU. Services will come out from under EU regulation in a blow to the City of London. Other points to note include a relaxed approach to European migration, membership of EU agencies for aviation, chemicals and medicines and joint arrangement with the European court of Justice. There is a long way to go to reach agreement with the EU. The EU will not give the UK access to the single market without concessions on free movement of people as well as a possible contribution to the EU budget. Sterling should strengthen against the euro on the back of a softer Brexit outlook, while negotiations with the EU will likely introduce more volatility. Outlook for our UK financials (**Lloyds, Aviva & Prudential**) is mixed as free movement of services is not part of the UK position meaning uncertainty for European exposures. However, free movement of goods is positive for the economy as a whole which should improve trading conditions at home for both insurers and banks. We retain **Outperform** on both **Aviva & Prudential** while **Lloyds** is currently **Under Review**.

Inflation Update

Yesterday saw the release of a slew of inflation data which is worth noting. German inflation came in line with expectations at 2.1%. French inflation came in at 2%, which was slightly below estimates of 2.1%. US inflation was 2.9%, again in line with expectations. Interestingly core inflation in the US was also above 2% at 2.3%. It should be noted that the Fed does not use this measure of inflation, preferring to use PCE data instead. However the general take from yesterday's data was that inflation in the US and Europe is running above the stated 2% target.

Source: Bloomberg, CF Research February 2018

Key Upcoming Events

13/07/2018 Q2 Earnings - US banks

Market View

Trade tensions have eased in the short term resulting in European and Asian markets moving higher over the last few days. This is due to China refraining from detailing retaliation plans against threatened tariffs. All sectors moved higher. With trade issues moving into the background for now, focus now turns to earnings season, which kicks off in earnest today with US banks reporting.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24700	-219.21	-0.88%	-0.08%
S&P	2774	-19.82	-0.71%	3.76%
Nasdaq	7717	-42.59	-0.55%	11.78%
Nikkei	22,188	255.75	1.17%	-2.53%
Hang Seng	28,507	195.36	0.69%	-4.72%
Brent Oil	74.8	1.40	1.91%	11.86%
WTI Oil	70.97	0.59	0.84%	17.46%
Gold	1246	3.61	0.29%	-4.39%
€/\$	1.1686	0.0012	0.10%	-2.66%
€/£	0.8842	0.0002	0.02%	-0.44%
£/\$	1.3217	0.0012	0.09%	-2.19%

	Yield	Change
German 10 Year	0.37%	-0.002%
UK 10 Year	1.29%	-0.003%
US 10 Year	2.86%	0.007%
Irish 10 Year	0.81%	-0.002%
Spain 10 Year	1.31%	0.005%
Italy 10 Year	2.70%	0.006%

Source: Bloomberg, CF Research Feb 2018

DCC - Solid report with acquisitions announced

Closing Price - £69.00

News

DCC released a solid trading update this morning with the stock trading up 2.5% at the open. Group operating profit for the first quarter ended June 30th was in line with expectations and well ahead of prior year, due to acquisitions. In this segment profits are always skewed towards the second half of the year and management reiterated that this financial year will be “another year of profit growth and development”.

Separately management also announced two acquisitions on the Technology side. In the US it has acquired Stampede, a specialist distributor of professional audio-visual products and solutions to system integrators in the US, UK and Canada. It recorded revenue of \$290m in 2017 and employs 210 people. This is consistent with management’s previously stated aim of expanding the Technology business’s geographic footprint and product range. The second acquisition is Kondor which distributes mobile & accessory products along with category management solutions in the UK and Europe. It posted revenue of £110m in 2017 and employs approximately 250 people.

The combined enterprise value of both companies is £110m and management expects them to generate an ROCE of c.15% in the first full year of ownership.

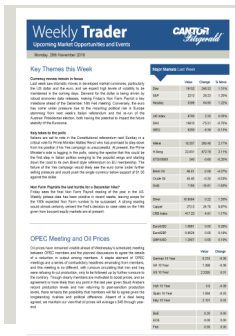
Comment

As is the norm with DCC, this release contained little numerical detail but no bad surprises. We had been [expecting some form of M&A](#) in this release and even though there are no numbers given as to consideration, we would expect it to be at an attractive valuation. Management guidance remains solid. One additional point to note is that management are having a Capital Markets Day in Marseille on the 13th September and this may act as another catalyst for further upside.

We had been advising clients to pick up the stock during lows this year and we maintain that opinion as we believe there remains 20% upside. 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.

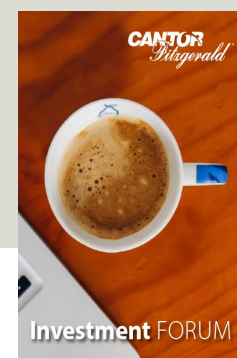
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Each month our Private Client and Research departments collaborate to issue a publication which highlights the performance of our flagship products, funds and our Core Portfolio, including the Green Effects fund, most recent private equity deals and structured product investment opportunities.

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Investment Forum

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

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

Prudential plc: Prudential plc is an international company which provides a wide assortment of insurance and investment products and services. Prudential's services include personal and group pensions, equity plans, mortgages, and deposit accounts.

Aviva plc: Aviva PLC is an international insurance company that provides all classes of general and life assurance, including fire, motor, marine, aviation, and transport insurance. The Company also supplies a variety of financial services, including unit trusts, stockbroking, long-term savings, and fund management.

Lloyds: Lloyds offers a range of banking and financial services including retail banking, mortgages, pensions, asset management, insurance services, corporate banking and treasury services.

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

Historical Recommendation:

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

Prudential plc: We have an "Outperform" rating on Prudential as of 01/03/2018

Aviva: We have an Outperform rating on Aviva as of 01/03/2018

Lloyds: We have been positive on Core Portfolio stock, Lloyds, since 01/03/14 and no change has been made to our recommendation since

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

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