

Thursday, 19th July 2018

Morning Round Up

Ryanair cancels flights on cabin crew disputes

Ryanair has cancelled up to 600 flights over the 25th and 26th of July as [cabin crews in Belgium, Spain and Portugal](#) confirm strike action. The strike will affect approximately 12% of its daily customers. This latest cancellation further adds to the [Irish pilot union](#) disputes that are ongoing. There has been no change to the latter with 24 flights from Ireland to the UK cancelled tomorrow. IALPA have also confirmed further strikes are likely next Tuesday. Despite all this Ryanair's stock price has held up relatively well boosted by [EasyJet's results](#) yesterday. Ryanair will deliver it's Q1/19 results on Monday with analysts likely to look for guidance on developments with unions, fares and costs. We maintain our Outperform rating with a 12 month price target of €18.50.

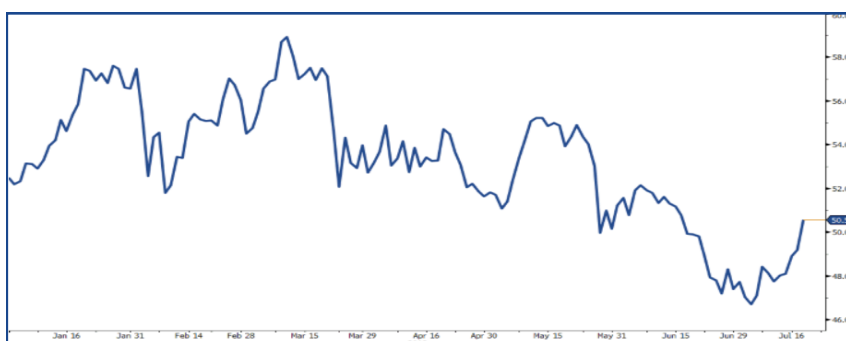
Nordea earnings beat drives big move at the open

Nordea released earnings this morning that beat market expectation reporting net income of €1.09bn versus estimates of €1.05bn pushing its share price up over 3% at the open. Total earning assets have remained somewhat flat over the past number of quarters with a slight reduction in interest earning securities and cash on deposit with banks. Management have been driving profitability through efficiency with an overall cost/income ratio around 50% and the Q2 ratio down to 45%. A quote from CEO Casper von Koskull addressed an expectation for modest growth with further improvements in efficiencies. Loan growth is a key aspect of the investment case for some of the weaker European Banks trying to improve profitability and we will be monitoring how other CEO's across Europe view credit markets.

Morgan Stanley Q2/18 Results

Morgan Stanley released strong results yesterday opening c. 3.30% up in morning trading as management beat estimates across the board. Net revenues came in \$10.6bn ahead of estimates at \$10.06bn with Investment Banking and trading revenues both contributing with strong performance. The corporate loan book, while only a small part of the balance sheet, posted good growth. The wealth management business continues to be the corner stone of management's strategy delivering approx. 40% of revenue and earnings, posting a 26.8% pre-tax margin. The expense efficiency ratio remains high at 71% with compensation and benefits making up the majority of the cost base. Shareholder returns were strong posting returns on equity in region of 13%. Morgan Stanley [remains our preferred name](#) amongst US financials.

Morgan Stanley YTD change



Source: Bloomberg, CF Research February 2018

Key Upcoming Events

19/07/2018 Q2 Earnings - US Tech
26/07/2018 Trump and Juncker trade meeting

Market View

US markets closed marginally up after a quiet day. US tech underperformed with S&P adding 30bps, while the NASDAQ was flat. Jay Powell's second day of congressional testimony didn't make any waves, as intended. Asia was mixed overnight with China giving back some of the week's earlier gains. European markets have opened slightly down this morning. The market will continue to focus on earnings season, with Microsoft and Paypal out today, as well some UK retail sales and US jobless claims data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25199	79.40	0.32%	1.94%
S&P	2816	6.07	0.22%	5.31%
Nasdaq	7854	-0.67	-0.01%	13.78%
Nikkei	22,765	-29.51	-0.13%	0.00%
Hang Seng	28,057	-60.01	-0.21%	-6.22%
Brent Oil	72.44	-0.46	-0.63%	8.33%
WTI Oil	68.5	-0.26	-0.38%	13.37%
Gold	1220	-7.94	-0.65%	-6.39%
€/\$	1.1611	-0.0028	-0.24%	-3.28%
€/£	0.8914	0.0009	0.10%	0.37%
£/\$	1.3026	-0.0043	-0.33%	-3.60%

	Yield	Change
German 10 Year	0.349	0.007
UK 10 Year	1.24	0.014
US 10 Year	2.886	0.017
Irish 10 Year	0.809	0.005
Spain 10 Year	1.28	-0.004
Italy 10 Year	2.482	-0.023

Source: Bloomberg, CF Research Feb 2018

SAP – Strong results show strategy working

Closing Price - €104.68

News

SAP released Q2 results that continued to highlight the [changing nature](#) of its business. Q2 non-IFRS operating profit came in at €1.64bn (+13%), ahead of estimates of €1.628bn. Non-IFRS net income was a slight miss at €1.73bn vs an estimate of €1.79bn. Overall revenue was €6.01bn (+4%) vs an estimate of €5.883bn. Cloud and software revenue was €4.959bn. The cloud division continues to power ahead with new cloud bookings coming in at €421m (+24% and +29% in constant currency terms). Cloud subscription and support revenue rose to €1.23bn (+40% or 32% in cc terms). The one negative in the quarter was that operating cash flow fell 15% to €2.99bn due to higher tax payments and stock based compensation. Its flagship S/4 Hana software added 600 customers bring the install base to 8900 clients.

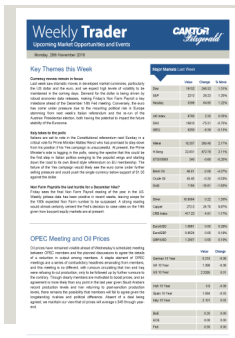
Management also upgraded its forward looking guidance. It now sees non-IFRS FY 2018 revenue in the range €24.975 - €25.3bn. Previous guidance had that range at €24.8 - €25.3bn. FY operating profit guidance is now €7.4 - €7.5bn having been at €7.35 - €7.5bn. Overall cloud revenue guidance is now at €5.05 – €5.2bn, having previously been at €4.95 - €5.15bn. Management also updated its 2020 ambition reflecting [strong momentum in cloud](#) and the recent acquisition of [Callidus Software](#). CEO Bill McDermott stated on the analyst call that its cloud business is “thriving and SAP’s growth strategy continues to win with the market”.

Comment

These were very strong results and illustrate the success of management’s strategic pivot towards the cloud business. SAP EPS growth over the next 3 years averages out at around 12% but we would expect to see upgrades to this over that timeframe as management achieve objectives and engage in accretive M&A. It remains attractive at current valuations and had traded up to an all-time high of €104.68 yesterday before results. This represented an 18% gain since our [last note](#) and 25% gain from its lows this year, when we [recommended clients](#) to pick up the stock. Due to that strong run, there may be some profit taking in the short term. However fundamentally the business is in great shape with management implementing the right strategy. We maintain our Outperform rating and recommend clients to pick up the stock on weakness.

William 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.

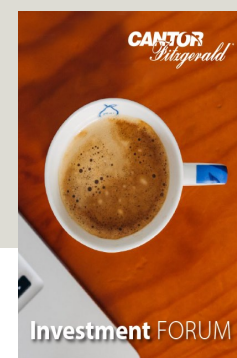
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Monthly Investment Journal

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)

Nordea: Nordea Bank AB is a financial services group that provides banking services, financial solutions, and related advisory services

Morgan Stanley: Morgan Stanley is a US based provider of financials and investment banking services

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

SAP: We have changed our outlook on SAP to "Outperform" from "Market Perform" as of 20/07/2017

Historical Recommendation:

SAP: We have changed our outlook on SAP to "Outperform" from "Market Perform" as of 20/07/2017

Nordea: We currently do not have a rating on Nordea

Morgan Stanley: We do not currently have a rating on Morgan Stanley

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

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