

Weekly Trader

Upcoming Market Opportunities and Events

CANTOR
Fitzgerald

Monday, 9th July 2018

Key Themes This Week

What we are watching this week

Equity markets last week had a decent week with both Europe and US up approx. 1-2% while the UK and EM also managed to generate positive performance. Despite the implementation of tariffs on Friday, the positive mood was mainly driven by a [good recovery](#) in [European economic data](#) and some sector specific performance, including in autos on the back of some [softer speak](#) from US officials on tariffs. The positive economic fundamentals, particularly in the US and Europe, give us no cause to change our fundamental long equity view into the second half of the year. But as we have been [advising](#), tariffs and politics are dominating [short term sentiment](#). This is evident in recent market performance. The best performing sectors in Europe over the past month are Utilities, Food & Beverage, Healthcare and Telecoms while the worse performing sectors Basic Resources, Autos, Financials and Tech. This is the classic rotation out of pro-cyclical names into [less cyclical sectors](#). Or in other words, a rotation from [growth to defensive](#). It is the same story in the US. This increases the importance of the upcoming quarterly earnings with markets looking for a catalyst which will outweigh the tariff and political worries.

Despite 24% earnings growth last quarter markets have generally not moved on. Analysts are expecting 20% earnings growth for this quarter and we would not be surprised if this is achieved. However there appears to be a general acceptance in the market that earnings have peaked in Q1 and the focus will now shift to other factors. Chief among these will be margins. We have noticed a tick up in input costs & services in the US and Europe this year. Anecdotally from analyst calls and meetings with management, there appears to be rising pressures on costs, most notably fuel, but also transport and labour costs. As of now this pressure is not too much to worry about and we do not expect it to accelerate to any great extent. But undoubtedly it will be a focus for analysts this quarter. Another point we will be monitoring is management guidance and outlook. Post the [US tax reform](#) bill, management sentiment and guidance was very positive. However, that was a time of global synchronised growth with every region in a buoyant mood. This has definitively shifted this year so it will be interesting to see if there have been any changes to management outlook.

The one region that did not participate in the global growth story in H2/17 and may not in the near term is the UK. This looks set to continue as Brexit takes its toll. On Friday Theresa May managed to secure [Cabinet agreement](#) on her vision for Brexit, which in large part is a soft Brexit with EU laws and standards being retained. This was seen as a positive for the pound and the UK economy in the immediate aftermath. The fact that May managed to secure this agreement, despite [hard Brexiteer's machinations](#) in advance, was also symbolic as it is the first time in a long while Mrs May has managed to gain control of her Cabinet. However, that initial togetherness was shattered last night when David Davis, the Brexit minister, resigned along with two of his junior colleagues, in protest at what he perceives is too soft a Brexit. It remains to be seen if other hard Brexiteers will join him or whether or not this move could result in a putsch against May. So far the market interpretation has been positive on Davis leaving with sterling rallying. This could be due to the market perceiving this to increase the chances of a soft Brexit and discounting the possibility of May's government falling. Either way it increases the uncertainty surrounding UK equities and the currency. We maintain our view that clients should refrain from increasing UK exposure until the smoke clears.

Our Core Portfolio is up 7.00% vs a benchmark return of 3.10%

This week we cover off on Ryanair, AIB Group, Bank of Ireland, and Microsoft.

Major Markets Last Week

	Value	Change	% Move
Dow	24456	240.43	0.99%
S&P	2760	43.51	1.60%
Nasdaq	7688	184.70	2.46%

UK Index	7653	105.54	1.40%
DAX	12534	295.54	2.41%
ISEQ	7020	92.84	1.34%

Nikkei	22,052	240.25	1.10%
H.Seng	28,737	-218.26	-0.75%
STOXX600	385	8.02	2.13%

Brent Oil	77.47	0.17	0.22%
Crude Oil	73.64	-0.51	-0.69%
Gold	1260	17.74	1.43%

Silver	16.118	0.27	1.69%
Copper	286.1	-10.50	-3.54%
CRB Index	436.81	-2.30	-0.52%

Euro/USD	1.1751	0.01	0.96%
Euro/GBP	0.8836	0.00	-0.22%
GBP/USD	1.3299	0.02	1.19%

	Value	Change
German 10 Year	0.306	0.00
UK 10 Year	1.29	0.04
US 10 Year	2.8436	-0.03

Irish 10 Year	0.807	-0.01
Spain 10 Year	1.323	0.03
Italy 10 Year	2.733	0.08

BoE	0.5	0.00
ECB	0.00	0.00
Fed	2.00	0.00

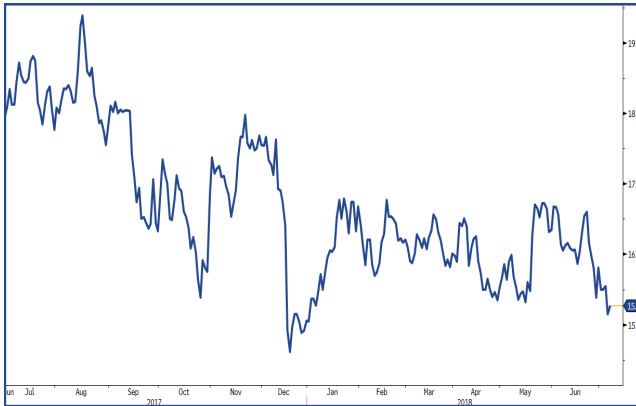
All data sourced from Bloomberg

Opportunities this week

CFI Research Team

Ryanair

Closing Price: €15.27



Key Metrics	2018e	2019e	2020e
Revenue (€Mn)	7817.4	8808.8	9479.2
EPS (€)	1.16	1.27	1.41
Price/ Earnings	13.16x	12.01x	10.81x
Div Yield	0.58%	0.51%	0.71%

Source: All data & charts from Bloomberg & CFI

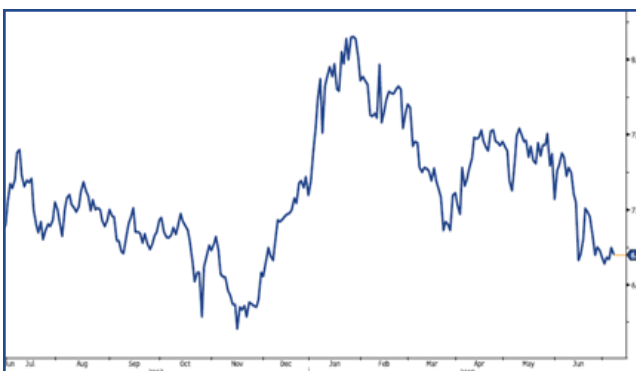
Share Price Return	1 Mth	3 Mth	YTD
RYA ID	-8.37%	-7.12%	1.46%

Source: All data & charts from Bloomberg & CFI

- From a fundamental perspective Ryanair remains among [our highest conviction](#) stocks and our preferred stock in the airlines sector.
- As we [have frequently highlighted](#) union disputes represent a headwind for the stock. This has driven the returns over [the past week](#). In the short term we expect volatility to remain as the stock moves in response to [headlines](#). At the moment it remains a PR issue as opposed to an issue materially effecting profit guidance.
- Ryanair will announce its Q1/19 results on July 23rd. We expect earnings [guidance \(€1,250m-€1,350m\)](#) to remain unchanged. Analysts will likely to focus on the recent industrial unrest, pricing, costs, expansion and ancillary revenue.
- Longer term we remain positive on Ryanair with a 12 month price target of €18.50 (consensus price target €17.32).
 - * The [major tailwinds](#) and [investment case](#) remain unchanged from last [week's trader](#). We anticipate the stock will rerate higher through the year on upward revisions and positive top down sector tailwinds (consolidation/pricing/traffic growth). From the medium term perspective we have high conviction in its growth.
- The major headwinds are a prolonged dispute with unions (pilots in Germany/Ireland and cabin crew), input cost increases (fuel/staff) and competition/pricing.
- At €15.27 it offers significant value trading at both a discount to historical averages and LCC peers. At these levels we recommend clients pick up the stock. Should it retrace on further union disruption, €14.60 offers the next level of support.

Bank of Ireland

Closing Price: €6.72



Key Metrics	2019e	2020e	2021e
Revenue (€Mn)	2918.2	2985.6	3099.3
EPS (€)	0.60	0.66	0.75
Price/ Earnings	11.23x	10.2x	8.97x
Div Yield	2.73%	3.96%	5.35%

Source: All data & charts from Bloomberg & CFI

Share Price Return	1 Mth	3 Mth	YTD
BIRG ID	-7.60%	-3.23%	-4.93%

Source: All data & charts from Bloomberg & CFI

- Turnaround investment case as management implement operational overhaul
 - * Positive loan growth (targeting 20% by FY21) improving profitability
 - * \$200mIn reduction in operating costs by FY21
 - * Modernisation of operating systems to produce efficiencies and support sales growth
 - * UK business lines to be overhauled to deliver high single digit Return on Tangible Equity (ROTE)
- Improving profitability to support dividend growth towards +4% yield by FY21
- Particularly exposed to Brexit fallout. Hard Brexit would make UK growth targets very difficult
 - * UK loan book represents approx. 25% of assets which generates close to 20% profits before tax
- Sector headwinds are quite strong with the sector currently out of favour
 - * ECB rate path slower than previously anticipated resulting in lower earnings growth expectation
 - * Political uncertainty in both Europe and the UK to constraint growth
- Management need to deliver on targets consistently to give investors' confidence in FY21 targets
- [Cantor price target of €7.73](#) (+15% upside), consensus price target of €8.26

Opportunities this week

CFI Research Team

Allied Irish Banks

Closing Price: €186.95



Key Metrics	2018e	2019e	2020e
Revenue (€'Mn)	2745.1	2740.2	2783.3
EPS (€)	0.37	0.35	0.36
Price/ Earnings	12.82x	13.86x	13.4x
Div Yield	3.15%	4.98%	6.19%

Source: All data & charts from Bloomberg & CFI

Share Price Return	1 Mth	3 Mth	YTD
AIBG ID	-0.21%	2.41%	-12.00%

Source: All data & charts from Bloomberg & CFI

- Very efficient operating model with:
 - * Demand for credit in Irish market supporting net loan growth. €300mIn Gross loan growth in Q1
 - * Net interest margin of approx. 250bps
 - * Improving balance sheet quality with non-performing loan exposure (NPE) c.13% of Gross Loans (FY17 16%)
- Excess capital to be distributed to shareholders once NPE targets achieved (5% of Gross Loans). Management targeting 5% by FY19.
- Dividend yield projected to reach +4% as balance sheet normalises
- Government stake to be sold down is expected to be headwind to capital appreciation
- Sector headwinds are quite strong with the sector currently out of favour
 - * ECB rate path slower than previously anticipated resulting in lower earnings growth expectation
 - * Political uncertainty in both Europe and the UK to constraint growth
- Stock has positive fundamentals, sector correction to provide catalyst
- [Cantor price target of €5.28](#) (+10% upside), consensus price target of €5.30

Microsoft

Closing Price: \$101.16



Key Metrics	2018e	2019e	2020e
Revenue (\$'Mn)	110151	121126	131399
EPS (\$)	3.84	4.06	4.63
Price/ Earnings	26.06x	24.67x	21.63x
Div Yield	1.67%	1.81%	1.92%

Source: All data & charts from Bloomberg & CFI

Share Price Return	1 Mth	3 Mth	YTD
MSFT US	-1.88%	8.05%	16.62%

Source: All data & charts from Bloomberg & CFI

- Reporting earnings on 19th July
 - * Expect continued strong growth in its Azure (cloud division) with expectations at +70% yoy growth.
 - * Any comments on cloud margin will likely be focused on as sector is quite competitive. Management has guided for longer term margins at 40%+.
 - * Cross selling between 0365 and Azure services (currently 65m out of 135m users)
- Management have recently been emphasising Gaming as a huge potential growth area, especially with the growth of “e-sports”.
- Seeking to build “Netflix of Gaming”, a subscription gaming service with Xbox platform , Azure Cloud and current customer 3rd party relationships all connected.
- Cloud, gaming growth, 0365 (base growth and per user pricing gains) and integration of LinkedIn should drive double digit revenue growth with a visible path to \$64bn EBITDA by 2021 (\$38.1 bn at the end of 2017)
- Recent GitHub acquisition shows management is committed to deploying capital.
- CEO Satya Nadella stating that they will be buying more businesses. (\$132bn in cash on the balance sheet and net debt/ EBITDA at 1.3x)
- Remains a high margin (31%), high growth (24.74%) business with multiple secular growth opportunities
- FY18 Estimates - Revenue growth 14%, EBITDA growth 17.21%, 40% EBITDA margin, \$34.27bn yearly FCF.13% upside to Street price target at \$112.97

Cantor Core Portfolio - In Detail



Cantor Core Portfolio

Date: 06/07/2018

Performance YTD	%
Portfolio	7.0%
Benchmark	3.1%
Relative Performance	3.9%
P/E Ratio	19.53x
Dividend Yield	2.6%
ESMA Rating	6
Beta	1.03

Sectors	Portfolio	Benchmark	+ / -
Consumer Discretionary	11%	12%	
Consumer Staples	5%	10%	
Energy	5%	7%	
Financials	24%	18%	
Health Care	5%	13%	
Industrials	22%	12%	
Information Technology	16%	14%	
Telecommunication Services	0%	3%	
Utilities	0%	3%	
Materials	12%	6%	
Real Estate	0%	2%	

FX	Portfolio	Benchmark
EUR	63%	44%
GBP	21%	16%
USD	16%	40%

Currency YTD %		
GBP	0.45%	
USD	2.12%	

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	YTD Return (EUR)	Weekly Return	Price	Total Contribution
STOXX Europe 600	EUR	15	Neutral	60%	0.7%	0.0%	382	0.4%
S&P 500	USD	17	Neutral	40%	6.7%	0.0%	2,748	2.7%
Total				100%				3.1%

Core Portfolio

Weighted Average Contribution

Stock	Currency	Yield*	Hold /Sold	Sector	Weighting	YTD Return (EUR)	Weekly Return	Price	Total Contribution
GLANBIA PLC	EUR	1.5	H	Consumer Staples	5%	4%	0.0%	15.44	0.2%
RYANAIR HOLDINGS PLC	EUR	0.0	H	Consumer Discretionary	5%	1%	0.0%	15.44	0.1%
INDUSTRIA DE DISENO TEXTIL	EUR	2.8	H	Consumer Discretionary	6%	4%	0.0%	29.79	0.2%
LLOYDS BANKING GROUP PLC	GBP	5.4	H	Financials	5%	-5%	0.0%	0.63	-0.2%
BANK OF IRELAND	EUR	2.8	H	Financials	5%	-4%	0.0%	6.76	-0.2%
ALLIANZ SE	EUR	4.9	H	Financials	5%	-2%	0.0%	180.3	-0.1%
FACEBOOK INC-A	USD	0.0	H	Information Technology	4%	15%	0.0%	203.2	0.7%
PAYPAL HOLDINGS INC	USD	0.0	H	Information Technology	4%	17%	0.0%	85.94	0.8%
ALPHABET INC	USD	0.0	H	Information Technology	4%	10%	0.0%	1155	0.5%
AMAZON.COM INC	USD	0.0	H	Information Technology	4%	46%	0.0%	1711	2.0%
iShares STOXX Europe 600 Banks ETF	EUR	3.2	H	Financials	5%	-9%	0.0%	16.53	-0.5%
SIEMENS AG	EUR	3.4	H	Industrials	6%	2%	0.0%	115.34	0.1%
VINCI SA	EUR	3.1	H	Industrials	5%	2%	0.0%	85.34	0.1%
SMURFIT KAPPA GROUP PLC	EUR	2.8	H	Materials	6%	27%	0.0%	35.26	1.6%
ALLIED IRISH BANKS PLC	EUR	3.1	H	Financials	4%	-10%	0.0%	4.83	-0.4%
CRH PLC	EUR	2.2	H	Materials	6%	4%	0.0%	30.59	0.2%
KINGSPAN GROUP PLC	EUR	1.1	H	Industrials	5%	15%	0.0%	41.62	0.7%
ROYAL DUTCH SHELL PLC	GBP	5.2	H	Energy	5%	11%	0.0%	27.15	0.6%
DCC PLC	GBP	1.9	H	Industrials	6%	-7%	0.0%	69.10	-0.4%
GLAXOSMITHKLINE PLC	GBP	5.2	H	Health Care	5%	21%	0.0%	15.52	1.1%
Total					100%		0.0%		7.0%

All data taken from Bloomberg up until 06/07/2018.

*Red Denotes Deletions

*Green Denotes Additions

*Yields are based on the mean of analyst forecast

Warning : Past performance is not a reliable guide to future performance

Warning : The value of your investment may go down as well as up.

From the News - Monday's Headlines

- **Global** Davis resigns as Brexit secretary
- **US** Booming US labour market draws new jobseekers
- **Europe** American ketchup next on EU's list of trade targets
- **UK** UK assets hold ground after Brexit resignation
- **Ireland** KBC Ireland assesses options to "materially reduce" bad loans

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	Corporate	Corporate	Corporate	Corporate
N/A	Ocado Group PepsiCo	Micro Focus International PLC	Delta Airlines	JP Morgan Citigroup Wells Fargo
Economic	Economic	Economic	Economic	Economic
DE Trade Balance	UK Monthly GDP Estimates CN Inflation Data IT Industrial Production	US Core and Headline PPI	US Inflation Data IE Inflation Data DE Inflation Data FR Inflation Data EU Industrial Productions	CN Balance of Payments European Inflation Data

Upcoming Events

16/07/2018 CN GDP Data, US Retail Sales

17/07/2018 UK Employment Data, US Industrial Production

18/07/2018 UK Inflation Data

19/07/2018 IE GDP Data

20/07/2018 IE Residential Property Prices

16/07/2018 Netflix, Blackrock, Bank of America

17/07/2018 Goldman Sachs, Johnson & Johnson

18/07/2018 Morgan Stanley, Danske Bank

19/07/2018 Microsoft, Bank of New York Mellon, Volvo

20/07/2018 GE, State Street

All data sourced from Bloomberg

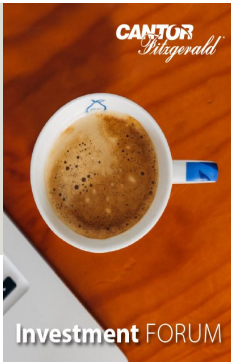
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Issuer Descriptions: (Source: Bloomberg)

Bank of Ireland: Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom

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

Inditex: Industria de Diseno Textil, S.A. designs, manufactures and distributes apparel. The company operates retail chains in Europe, the Americas, Asia and Africa.

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

ICG: Irish Continental Group plc markets holiday packages and provides passenger transport, roll-on and roll-off freight transport, and container lift on and lift-off freight services between Ireland, the United Kingdom and Continental Europe.

Siemens: Siemens AG is an engineering and manufacturing company. The Company focuses on four major business sectors including infrastructure and cities, healthcare, industry and energy.

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

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

Facebook: Facebook Inc. operates a social networking site.

PayPal: PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants.

Alphabet: Alphabet provides web based search, advertisement, maps, software applications, mobile operating systems, consumer content and other software services.

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

Amazon: Amazon is an online retailer that offers a wide range of products.

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

CRH: CRH is a global building materials group.

Datalex: Datalex plc provides e-business infrastructure and solutions to customers in the global travel industry.

Kingspan: Kingspan is a global market player in high performance insulation and building envelope technologies.

Royal Dutch Shell: Royal Dutch Shell explores, produces and refines petroleum.

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

GlaxoSmithKline: GSK is a research based pharmaceutical company.

Glanbia: Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

Microsoft: Microsoft Corporation develops, manufactures, licenses, sells, and supports software products.

None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.

Historical Record of recommendation

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

Bank of Ireland: We have reinstated an outperform rating on Bank of Ireland as of 13/07/2016

AIB: We moved our rating from outperform to market perform on the 25/06/2018

Microsoft: We have had an Outperform rating on Microsoft since 12/01/2018



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