

Tuesday, 18th September 2018

Morning Round Up

US ratchets up pressures on China with latest tariff move

President Trump announced a 10% tariff on \$200bn in Chinese imports coming into effect from Monday the 24th of September, with the possibility of increasing the tariff to 25% in 2019 if no deal is reached. In a win for Apple, consumer electronics such as smart watches and Bluetooth devices were removed. As well as some chemicals, textiles and agricultural products. China hawks in the President's administration were disappointed with the move hoping for the full 25% to be implemented immediately. The President has to be concerned with the impact on prices such a move would have had especially given the mid term elections in November. We expect tariff driven inflation to hit on two fronts. Firstly, consumer prices in the US will go up hurting the average American. The move could also cause the Fed to speed up its rate hiking cycle in an attempt to maintain price stability. As we have mentioned previously, the tariff rhetoric and tough on China stance has played well with the Presidents political base, it remains to be seen if that message holds strong when people begin to feel the effects in their pockets. It is also worth noting that the Chinese have yet to signal any retaliatory measures. Beijing officials met this morning to formulate a response to yesterday's move. Reports indicate that the Chinese will move with retaliatory tariffs on up to \$110bn of US exports. China have proved effective at selecting policy to directly target the President's base supporters by targeting agricultural sector in its first round of tariffs. Ultimately these actions represent a significant increase in trade tensions and a prolonged period of tariffs will hurt global growth outlook.

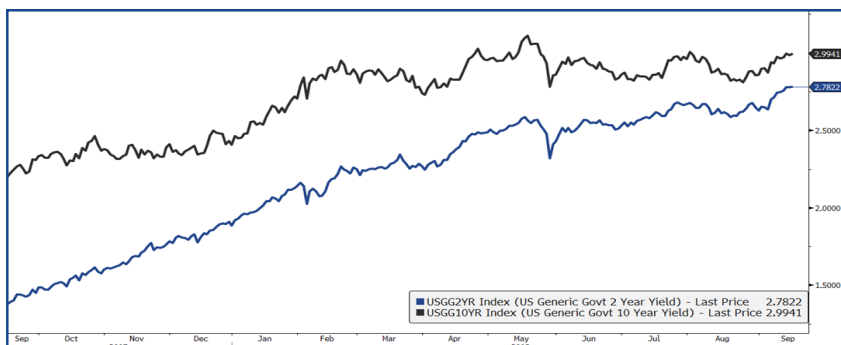
The US 10 Year pushes back towards 3%

The US 10 year yield traded above 3% yesterday, having not held these levels since May. While back in May there was much comment on the importance of the 3% level, the market is largely ignoring it this time round with curve inversion taking the limelight. The relative performance of short end (2 year yields) versus the long end (10 year yields) in recent months has been aggressive. The 2s10s spread has closed to 10 year lows, close to 20bps, with a year to date high of 78bps. A yield curve inversion has preceded every US recession since 1955. In the context of today's flattening yield curve, the question remains when does the curve go negative and how long will the interval be before an economic slow down.

Coca Cola exploring cannabis drink

Aurora Cannabis jumped 11% yesterday on reports of talks with Coca Cola. It is looking at developing wellness drinks using the non-psychoactive chemical derived from marijuana. Coca Cola has been diversifying its product portfolio to offset the slowing carbonated soft drink market with the recent acquisition of Costa Coffee in the UK and focusing on lower added sugar products such as Juice, Dairy & Plant, Hydration, Energy and Teas & Coffee. Cannabis based businesses are coming under increased scrutiny as mainstream corporates recognise the growth potential from the burgeoning sector.

US 2Y & 10Y Yields



Source: Bloomberg, CF Research August 2018

Key Upcoming Events

- 19/09/2018 EU Leaders Summit
- 19/09/2018 Bank of Japan Interest Rate Decision
- 26/09/2018 Fed Interest Rate Decision
- 30/09/2018 Conservative Party Conference

Market View

The US sold off yesterday with the tech heavy NASDAQ closing down 1.43% and the broader S&P 500 finishing down 0.56%. 10 year yields broke 3% yesterday but finished the day at 2.99%, while the dollar weakened, trading close to \$1.17 against the Euro. Asia trading was mixed with China selling off on the tariff announcement but the Nikkei posted strong gains up 1.4% on the day. Futures had indicated a negative open in Europe, however, most markets have opened up this morning. It's a quiet day on the data front with investors looking to Beijing for Chinese retaliatory trade measures.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26062	-92.55	-0.35%	5.43%
S&P	2889	-16.18	-0.56%	8.05%
Nasdaq	7896	-114.25	-1.43%	14.38%
Nikkei	23421	325.87	1.41%	2.88%
Hang Seng	27085	151.81	0.56%	-9.47%
Brent Oil	77.9	-0.15	-0.19%	16.49%
WTI Oil	69.18	0.27	0.39%	14.50%
Gold	1199	-2.05	-0.17%	-7.94%
€/\$	1.1688	0.00	0.04%	-2.64%
€/£	0.8895	0.00	0.20%	0.16%
£/\$	1.314	0.00	-0.13%	-2.76%

	Yield	Change
German 10 Year	0.448	-0.01
UK 10 Year	1.525	-0.01
US 10 Year	2.9941	0.01
Irish 10 Year	0.93	-0.01
Spain 10 Year	1.485	0.00
Italy 10 Year	2.86	0.0180

Source: Bloomberg, CF Research August 2018

Green REIT - Development projects drive positive surprise on NAV

Closing Price - €1.56

News

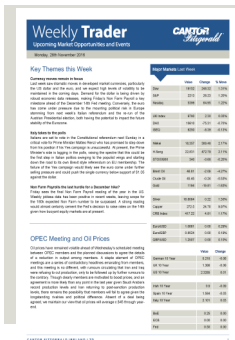
Green REIT posted strong results this morning that should drive the stock higher. Headline figures included growth of 11% in profits after tax, which came in at €144.2m as well as 12% growth in EPRA earnings. EPRA net asset value (NAV) came in ahead of expectations up 8% on FY17 at 178.9c. This is an exceptionally strong number when you factor in a c. €55m (8c on a per share basis) impact of stamp duty. NAV upgrades were driven by development projects becoming fully let and de-risking of the portfolio. Flagship buildings at One Molesworth Street and 5 Harcourt Road generated a combined gross NAV uplift of €92.6m or net of capital expenditure €62.7m. Annual contracted rent came in at €71.7m as at the 30th of June 18, up €2.8m on FY17, which includes the loss of €8.5m in rent roll from the disposal of Westend Retail Park. EPRA earnings came in behind expectations at 5.3c per share mostly due to an increase of over €2m in performance fees bringing total Investment Management fees to €19.6m up €3.1m on FY17. A full year dividend has been announced at 5.3c per share, which is up 6% on FY17 full year dividend but still some ways off management's targeted dividend of 4% of NAV or 7.15c. 5.3c represents a yield of 3.3% on current levels.

Comment

These results should be well received by the market with the surprise on valuations being the headline positive this morning. Realisation of development profits drove strong capital appreciation despite the headwind of the increase in stamp duty. Management has called out €600m of a potential development pipeline, however, we will be looking to the conference call for more details on this. The release includes details relating to the potential addition of space at the Central Park development in Leopardstown, which has potential to accommodate an additional 400,000 sq ft as well as ambition to drive development at the Horizon Logistics Park. One area of concern relating to this morning's results would be the 18% growth in Investment Management fees yoy along with a loss on its interest rate swap portfolio, which hurt yoy earning per share (EPS) and EPRA EPS growth. Higher management fees reduces the businesses capability of distributing earnings to shareholders. We see limited capital appreciation in the Green portfolio past FY19 given our view on the commercial property cycle, however, we see its value as a secure income paying stock. With a weighted average unexpired lease term (WAULT) of 8.8 years and quality of tenants, we are expecting management to achieve its 4% of NAV dividend yield target in FY19. We are moving the stock to Under Review.

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)

Green REIT: operates as a property investment company.

Historical Recommendation:

Green REIT: We have moved Green to under review

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 recommends 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