Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Tuesday, 13th November 2018

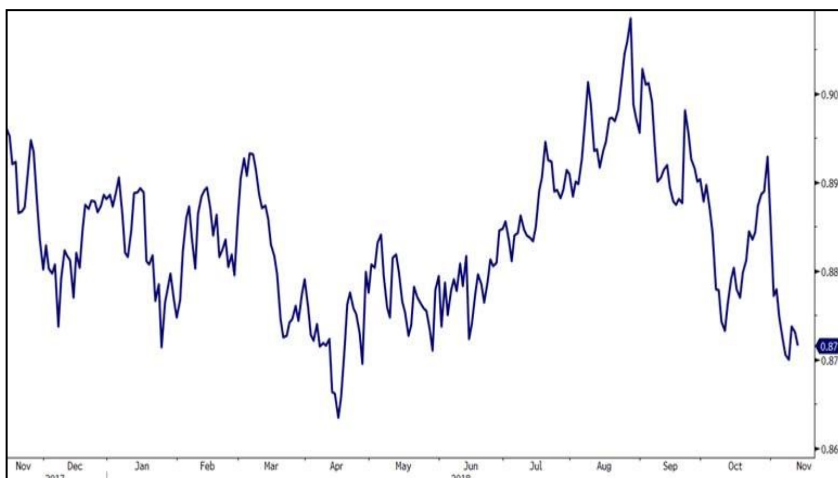
Morning Round Up

Brexit negotiations rumble on as UK says a deal is in sight
David Lidington, one of Miss May's closest confidants and Minister for the Cabinet Office, announced that a Brexit deal is "almost within touching distance". May is still hoping to agree a deal with the EU by Wednesday in order to facilitate a signing of the agreement at the EU leaders summit on the 25th of November. The major outstanding issue to Britain's exit from the European Union, is the Irish border and temporary customs arrangement thereafter. Mrs May's easiest solution is to maintain a sea border, which would leave Northern Ireland within the European Customs Union. However, Mrs May's reliance on the DUP parliamentary votes limits her ability to pursue this solution. While agreeing terms with the EU has proved a challenge, at this point, the most challenging aspect of the exit agreement will be getting it through Westminster. Mrs May will require support from the Labour party as Tory eurosceptic will be unlikely to support an exit agreement with an unconstrained transition period. The pound has been strengthening against the euro on the prospect of a deal, as it traded with an £0.86 handle briefly last week. Our view remains that the pound should trade down to an £0.80 - £0.82 range against the euro in the event of a soft/market friendly Brexit. On the flip side a "no deal" scenario should see the pound push up to a £0.95 - £0.97 range.

GE concerns sees stock trade below $8
New CEO, Larry Culp, commented in an interview yesterday that there is "a sense of urgency" in selling assets to cuts its debts and strengthen its balance sheet. He confirmed managements primary objective is to reduce leverage levels by selling assets, indicating external parties have showed interest in GE assets and he had "plenty of opportunities" to sell businesses`. The outlook at this time for GE remains poor.

Grafton Group shows good momentum
Grafton Group released a trading update for the period from January 2018 to present. Q3 trading in the UK and Belgium have reported an improvement in organic revenue momentum which has led to like for like group revenue growth of 5.5% for Q3, relative to 4.4% for the year to date period. Ten month revenue has increased by 9.3% to £2.5bn. Grafton Group continues to outperform its industry peers in the UK and has the added benefit of its Irish and Dutch markets delivering very strong growth. Grafton is on course to report record earnings per share in 2018 and would be a share we would look to accumulate in any near term Brexit volatility. Grafton trades on 13x trailing earnings and offers a 2.2% dividend yield.

1 Year EURGBP Chart



Source: Bloomberg, CF Research November 2018

Key Upcoming Events

13/11/2018 Revised Italian Budget
21/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

Market View

European markets have opened up well this morning following heavy sell offs in global equities yesterday, driven by fears over trade, Brexit uncertainty, Italy and Apple sales. Despite hawkish trade comments from Trump yesterday, a more positive tone has reverberated this morning after it was reported that China's Vice Premier Liu will visit the US prior to Trump and Xi meeting at the end of the month. Italy will be closely watched as it is due to provide its revised budget today. Brexit will also be in focus today as May attempts to bring some form of deal through her cabinet.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25387	-602.12	-2.32%	2.70%
S&P	2726	-54.79	-1.97%	1.97%
Nasdaq	7201	-206.03	-2.78%	4.31%
Nikkei	21811	-459.36	-2.06%	-4.19%
Hang Seng	25793	159.69	0.62%	-13.79%
Brent Oil	68.78	-1.34	-1.91%	2.86%
WTI Oil	58.6	-1.33	-2.22%	-3.01%
Gold	1199	-0.94	-0.08%	-7.93%
€/$	1.1233	0.00	0.13%	-6.43%
€/£	0.8718	0.00	-0.14%	-1.84%
£/$	1.2886	0.00	0.29%	-4.64%

	Yield	Change
German 10 Year	0.388	-0.01
UK 10 Year	1.455	0.00
US 10 Year	3.158	-0.02
Irish 10 Year	0.971	0.00
Spain 10 Year	1.606	0.01
Italy 10 Year	3.50	0.0620

Source: Bloomberg, CF Research November 2018

Vodafone - Dividend in line with FY17 policy   Closing Price - £1.44

News

Vodafone released results this morning which go some way to assuaging investor concerns regarding the companies dividend strategy. Top line figures came in slightly behind internally complied expectations at €21.8bn versus €22.11bn. Revenue was down 5.5% on the same period last year due to changes in accounting standards and FX headwinds. Management made strong progress on costs, pushing its ÈBITDA margin up to 31.0% from 30.8% despite a lower EBITDA figure. On completion of the merger of Vodafone India with Idea Cellular, Vodafone India's results have been excluded from group results and a €3.4bn loss was recognised. Management reported a total loss of €7.8bn, which included impairment charges from both Spanish and Italian operations as well as higher financing costs.

The market will focus this morning on dividend policy and guidance. While management had been guiding an increasing dividend, investors will be relieved to receive confirmation of an interim dividend of 4.84 eurocents, the same as FY18, which was one of the main points of negative sentiment towards the stock. Full year guidance for free cash flow and EBITDA growth were improved. FCF pre spectrum guided for c. €5.4bn up from "at least" €5.2bn, while EBITDA growth is now guided for 3%, the middle of management's initial range of 1-5%. On the financing side, management are guiding its net debt/EBITDA at the lower end of its 2.5-3x range. Finally, in an effort to boost returns from infrastructure assets, management will create a virtual tower company to manage the 58,000 towers controlled by Vodafone. It also makes the tower infrastructure more saleable should management look to raise capital.

Comment

A very encouraging release from Vodafone this morning that should go some way to addressing investor concerns. After a challenging 6 months from an operations point of view, with EM currency volatility and competition in Italy and Spain, management delivered operating results in line with market expectations, which was very encouraging. Although, confirmation on the dividend policy will unquestionably be the biggest positive investors will take for this mornings release. Increasing cash flow guidance, narrowing EBITDA guidance and a focus on lowering leverage are all also very encouraging. We maintain a positive outlook for Vodafone and remain optimistic on its strategy. Quality of service will become more important as consumers increasingly rely on mobile and fixed infrastructure for their entertainment. Owning the best and largest infrastructure in Europe should drive profitability over the medium term, giving Vodafone a stronger pricing position, lower churn rates and a more complete product offering. At current levels we remain positive on Vodafone as management show faith in the business's ability to sustain current cash flow rates. The stock is now paying an almost 9% dividend yield. We retain our Outperform rating on the stock.

Pierce Byrne, CFA | Investment Analyst

Hibernia REIT – Dividend growth as portfolio matures   Closing Price - €1.36

News

Hibernia REIT released its interim 2019 results, reporting that NAV increased by 4.5% to €1.66 as its portfolio value grew to €1.32bn. Management raised the interim dividend by 36% to 1.5c, in line with EPRA earnings growth. Hibernia trades at an 18% discount to net asset value and offers investors a 2.7% dividend yield. Hibernia also announced that they have secured HubSpot as a tenant for 1SJRQ under a 20 year lease. HubSpot will pay €60 per sqft for the 112,000 sqft building which has 31 car park spaces. Hibernia's current portfolio trades with a ERV of €45 per sqft which indicates the long term reversionary potential. Group contracted rent has increased by 9% to €61m. Balance sheet (€164m net debt) remains very strong with a 12.3% loan to value ratio. Hibernia yesterday announced the acquisition of land at Newlands Cross which brings their total land bank here to 144 acres. Hibernia has acquired the landbank for over €280k an acre. If the lands are rezoned, Hibernia will make an additional payment equating to 44% of market value at that date, less the initial consideration. While the sheer size of the land bank would suggest a decent long term opportunity, the overall price paid looks high given that it is only currently zoned as agricultural land. Hibernia REIT has an additional 265,000 sqft of office space in the pipeline which will be a key driver of NAV growth in the short-medium term. Hibernia continues to see significant demand for office space from US companies expanding here and expects a surge in demand from UK companies once Brexit is finalised.

Comment

After the recent sell off in Irish REIT shares, the discount to net asset value has blown out to 18%-20% for both Hibernia & Green REIT. The demand outlook remains strong and it is possible that this sector will be a huge beneficiary of "Brexit". Rents are already trending to new highs which is pushing capital value upward also. We like the commercial REIT's at current levels as they help diversify portfolios, offer a higher than average dividend yield and are most likely going to benefit from Brexit as UK companies look for a presence in the EU via Dublin. Hibernia trades with a gross rental yield to enterprise value of 5.2% versus Green REIT's comparable yield of 7.1%.

Darren McKinley, CFA | Senior Equity Analyst

DCC - H1/19 shows continued growth in line with expectations

Closing Price - £62.20

News

DCC released a broadly positive set of H1/19 results this morning. Headline figures showed continued growth, with the business performing in line with management's expectations. However there was little given away in guidance nor acquisitions for the remainder of the year. Overall group revenue increased by 24.7% (25.1% on a constant currency (cc) perspective) to £7.4bn. Adjusted operating profit from continuing activities increased by 15.9% (16.5% cc) to £141.9m. Adjusted EPS from continuing operations grew by 12.1% (13% cc) to 107.1p.

Underlying segments within the business performed in line with managements expectations. As expected, operating profit from continuing operations in DCC LPG fell by 7.2% yoy to £40.9m. This was due to the to the material increase in the cost of product and investment in its natural gas and power offering in France. Volumes did however increase by 14.9% driven by acquisitions. DCC Retail & Oil was strong, with operating profit growth from continuing operations of 33.5% to £56.3m, driven by acquisitions in the prior year. DCC Healthcare saw profit growth from continuing operations of 22.2% to £26.9m, as DCC Vital and DCC Health and Beauty performed well. DCC Technology, which benefited from the acquisitions and organic growth in Ireland and the UK, saw 25% operating profit growth from continuing operations to £17.8m.

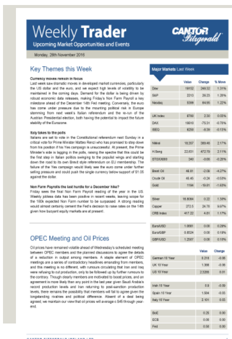
During H1/19, DCC has committed a total of £271.9m in acquisition expenditure. This has primarily been in DCC technology with the acquisitions of Jam, Stampede and Kondor. On a pro forma basis, including the £606m proceeds from Septembers equity raise, DCC net debt position has fallen to a low £237.4m (0.5x FY18 EBITDA). The interim dividend for the year has increased by 10% to 44.98p. Managements guidance remains as is "for another year of profit growth and development".

Comment

These were a decent set of results with underlying segments continuing to perform well driving double digit headline profit growth. The stock has however fallen by 1% on open this morning, as little new news saw some early selling. We see continued acquisitions in the remainder of the year with the strong balance sheet position leaving room for circa £1bn worth of capital to be deployed in the short term. Importantly the current second half of the year is seasonally more important for DCC, with it generally accounting for 70% of profits. Sentiment toward the stock has weighed since the equity raise in September. We expect this to improve on news of capital deployment. The stock is currently trading at both a discount to the sector and to its history with a 12m forward P/E of 16.5x. We maintain our Outperform rating.

David Fahy, 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.

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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)

DCC: DCC is a sales, marketing, distribution and business support services company.
Grafton Group: Grafton Group PLC manufactures and retails building supplies
Vodafone: is a mobile telecommunications company providing a range of services, including voice and data communications
Hibernia REIT: Hibernia REIT plc operates as a real estate investment trust. The Company invests in commercial properties including offices, industrial properties, retail stores, warehousing and distribution centers, and other related property asset

Historical Recommendation:

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated
Grafton Group: We changed our rating on Grafton from Market Perform to Outperform on the 20th Feb 2018
Vodafone: We have been positive on Vodafone's outlook since 04/02/14 and no changes have been made to this recommendation in the last 12 months
Hibernia REIT: We moved Hibernia to Outperform from Market Perform as of 22/01/2017

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