

Thursday, 15th November 2018

Morning Round Up

Deal or No Deal

UK Prime Minister Theresa May has secured Cabinet backing for the Brexit deal after meeting with her senior ministers yesterday in Downing Street. The announcement from May, after the 5 hour session, that saw some ministers reduced to tears, was received well by market participants with sterling etching up 0.2 % against the dollar. This is however, only the first step in securing a deal as the real test comes today when May seeks parliamentary approval after the deal is signed in Brussels. Initial details of the agreement show the UK will remain in the customs union for an unspecified amount of time, with the rights protected for more than 3 million EU citizens living in the UK and around 1 million UK nationals living in the EU. The Irish border was also front and centre with no agreement being reached but more time given to “establish the permanent absence of a hard border”. There has been a large backlash following the announcement, with the Labour’s Sir Keir Starmer and the DUP’s Jim Shannon saying their respective party’s will vote against May’s Brexit deal. In a blow to the deals prospects, Brexit Minister Dominic Raab resigned just before 9 this morning, stating that he “cannot in good conscience support the terms proposed for the deal with the EU”. Comments from the EU’s chief Brexit negotiator Michel Barnier painted a more positive picture stating that this is a very important moment for the EU and UK and he is almost certain that the EU27 members will have no qualms with the agreement. Further resignations from May’s cabinet in the coming days could all but kill the deal prior to the EU leaders summit, putting Mrs May’s tenure in jeopardy. The next step is the EU summit on the November 25th where approval from EU leaders will be sought. With the threat of a vote of no confidence in the PM, all attention will be focused on May’s speech this morning.

Greencore special dividend tax considerations

At the EGM on the 7th of November both the flexibility to issue the 72p special dividend and the subsequent share consolidation [were approved](#). The exact date of the ex date depends on the High Court approval process on distributable reserves, which is on-going. However the plan is for the ex date to be in “mid December” with payment in mid January. At this time we must take it that it will go ahead as planned, therefore clients should be cognisant of the tax implications of availing of the special dividend. If you do not wish to avail of the special dividend we advise selling the stock prior to the ex date in “mid December”. One should also be cognisant that by buying the stock prior to the ex date in “mid December” you will avail of this special dividend and the subsequent tax. Greencore will announce its FY18 results on the 4th of December. We will get more clarity on the financials in the underlying UK business (split from the US) and the future growth guidance/prospects. Until then we maintain our price target of £2.15. However this is unlikely to be achieved prior to these results as the market seeks further clarity.

KBC beat estimates with strong Q3 performance

KBC released a strong set of third quarter results this morning beating analysts’ estimates on both revenue and earnings. Revenue came in at €1.89bn versus estimates of €1.86bn. Net income for the quarter was €701mln versus estimates of €673mln. Net interest margin (NIM) fell by 2bps to 1.98% on the previous quarter. Customer loans grew by a c. €700mln in the quarter. Its Irish unit contributed €32mln to net profits down 13% on Q2 due to lower loan loss releases.

Source: Bloomberg, CF Research November 2018

Key Upcoming Events

21/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

Market View

US markets fell for a fifth straight day yesterday, Apple briefly entered bear market and financials leading the decline. Asia was mixed as Japanese stocks underperformed while Hong Kong was positive. Europe has opened positive this morning. Yields have fallen back with the US 10 year at 3.11% and the German 10 year at 38bps. Uncertainty on the parliamentary numbers on Brexit has maintained the pound with an £0.87 handle. Investor will be watching for any cracks in Mrs May’s cabinet over the coming days. On the data front, the US and UK post retail sales data while Europe has some trade data.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25081	-205.99	-0.81%	1.46%
S&P	2702	-20.60	-0.76%	1.05%
Nasdaq	7136	-64.48	-0.90%	3.38%
Nikkei	21804	-42.86	-0.20%	-4.22%
Hang Seng	26103	448.91	1.75%	-12.75%
Brent Oil	66.09	-0.03	-0.05%	-1.17%
WTI Oil	55.81	-0.44	-0.78%	-7.63%
Gold	1211	-0.31	-0.03%	-7.08%
€/\$	1.1283	0.00	-0.24%	-6.01%
€/£	0.8822	0.01	1.35%	-0.66%
£/\$	1.2789	-0.02	-1.56%	-5.36%

	Yield	Change
German 10 Year	0.352	-0.05
UK 10 Year	1.382	-0.12
US 10 Year	3.0884	-0.04
Irish 10 Year	0.958	-0.02
Spain 10 Year	1.65	0.03
Italy 10 Year	3.49	-0.0040

Source: Bloomberg, CF Research November 2018

Tullow - Continues to make progress

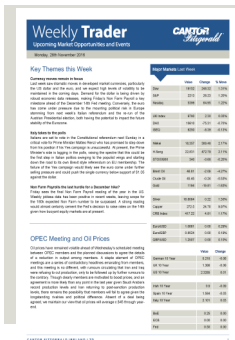
Closing Price - £1.92

News

Tullow Oil released its Q3 trading update this morning ahead of its Capital Markets Day on the 29th November. The main feature of the update was lower than expected capital expenditure for 2018, further supporting the group's \$700m free cash flow forecast for 2018. At \$700m, Tullow trades with a free cash flow yield of 20%. Q3 production continues to perform to the higher end of expectations and management are comfortable that the oil price hedges in place will ensure a healthy price achieved for H2 2018. FID of Kenya is expected in 2019 and management committed to exploration in the oil-rich Guyana fields in 2019 which could result in resource upgrades. These two projects are partially key to long term growth at Tullow. We remain positive on Tullow Oil with a key catalyst for improved share price performance being an improvement in the oil price. OPEC meet on the 6th December to discuss production with expectations that they may agree to reduce production to improve supply/demand dynamics.

[Darren McKinley, CFA | Senior Equity Analyst](#)

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Tullow Oil: Tullow Oil through subsidiaries, explores for, produces, and refines petroleum

Greencore: Greencore manufactures and distributes a diverse range of primary foods and related products, food ingredients and prepared foods to the consumer and industrial sectors

Historical Recommendation:

Tullow Oil: We changed our rating on 25/07/2017 with Outperform rating

Greencore: We revised our recommendation for Greencore, to Market Perform from Outperform, as of 25/08/2017.

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