Friday, 2nd November 2018

# Morning Round Up

**Carney Talks Tightening if Hard Brexit**

The BOE kept its benchmark interest rates unchanged on Thursday as rate-setters voted unanimously to hold rates at 0.75%. With the pound having its biggest rally since April 2017 the real news came from comments by the BOE Governor Mark Carney, who said a no-deal Brexit would mean an interest rate hike. Carney expanded on the comments by saying that crashing out of the EU could provoke a supply side shock that would drive inflation up sharply. This would require more aggressive tightening of monetary policy to defend the pound from a major sell off and supress UK inflation. These comments are in contrast to what was expected as softening the blow to the economy by encouraging spending and growth with lower interest rates would be a more natural reaction for a central bank in times of economic crisis. The central bank also published new economic forecasts and revised down its growth and inflation expectations for next year. Inflation forecast was reduced to 2.1% versus 2.2% previous with GDP reduced to 1.7% from 1.8% previous. Weaker economic data from the UK would show that the fundamental picture has not changed, with Carney highlighting that Brexit negotiations have not concluded yet and details of the accord are still up in the air with the faith of the pound remaining tied to a Brexit deal.

**Trade takes another turn**

Chinese stocks are set to post their biggest weekly gain in almost four years on the back of renewed trade optimism. After weeks of stagnation on the issue, a tweet from President Trump yesterday afternoon drove positive sentiment. Cyclical stocks in the US benefited the most with sectors like materials, consumer discretionary and industrials posting the biggest gains. Positive sentiment held into Asian trading overnight, with Hong Kong up over 4%. A flurry of speculation followed the tweet with reports that President Trump requested a draft trade agreement from aides. While positive sentiment is encouraging we are still some way off an agreement, that would give the market certainty. Geopolitical and trade issues hanging over markets will continue to drive uncertainty and volatility in equity markets into year end.

**Mixed bag from Apple**

Apple released full year results yesterday after the closing bell, leading to the stock dropping c. 5% in after market trading. Apple beat estimates on both the top and bottom line as well as average selling price. Reported revenues for the quarter were $62.9bn versus $61.44bn, earnings per share was $2.91 versus $2.78 and the iPhone average selling price was $793.04 versus $729. Unfortunately, the negative sentiment outweighed the report's positive aspects, with lower guidance for Q1 revenues as well as a miss on iPhone unit sales in Q4 (46.9mln versus expectation of 48.4mln). The biggest news from the release was the announcement that the company would stop reporting iPhone, iPad and Mac unit sales. This news raised significant concern amongst analysts and was the primary driver of weakness in after hours trading.

Source: Bloomberg, CF Research November 2018

## Key Upcoming Events

02/11/2018 EBA Stress Tests
06/11/2018 US Midterm Elections
08/11/208 FOMC Meeting
21/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

## Market View

US markets posted strong results as risk appetite returned on positive trade news. The more cyclical sectors like industrials and materials benefited most. Asia continued in the same vein overnight, with markets up across the region. European markets opened up 1% this morning. Yields moved higher with the US 10 year moving to 3.16% and the 10 year Bund is trading at 43bps. Earnings season rolls on, as the majority of US names have now reported, European names will dominate next week. On the data front, today is jobs day in the US with non farm payrolls and average hourly earnings out.

## Market Moves

| | Value | Change | % Change | % Change YTD |
|---|---|---|---|---|
| Dow Jones | 25381 | 264.98 | 1.06% | 2.68% |
| S&P | 2740 | 28.63 | 1.06% | 2.50% |
| Nasdaq | 7434 | 128.16 | 1.75% | 7.69% |
| Nikkei | 22244 | 556.01 | 2.56% | -2.29% |
| Hang Seng | 26486 | 1070.35 | 4.21% | -11.47% |
| Brent Oil | 72.89 | 0.00 | 0.00% | 9.00% |
| WTI Oil | 63.54 | -0.15 | -0.24% | 5.16% |
| Gold | 1235 | 2.05 | 0.17% | -5.17% |
| €/$ | 1.1437 | 0.00 | 0.25% | -4.73% |
| €/£ | 0.8777 | 0.00 | 0.05% | -1.18% |
| £/$ | 1.303 | 0.00 | 0.14% | -3.57% |

| | Yield | Change |
|---|---|---|
| German 10 Year | 0.431 | 0.03 |
| UK 10 Year | 1.486 | 0.03 |
| US 10 Year | 3.1665 | 0.04 |
| Irish 10 Year | 0.999 | 0.03 |
| Spain 10 Year | 1.567 | 0.00 |
| Italy 10 Year | 3.35 | -0.0310 |

Source: Bloomberg, CF Research November 2018

## **PaddyPower Betfair** - Decent results as guidance is upgraded slightly

Closing Price - €78.65

**News**

Paddy Power Betfair (PPB) released a positive Q3/18 trading update this morning. Revenue growth was solid, with performance in some key underlying segments picking up, and guidance for the year was upgraded slightly. EBITDA guidance for FY18 was upgraded to range between £465m - £480m, from £460m - £480m. On the back of this upward revision we expect some slight upgrades (midpoint £472.5 vs consensus £464.3m). Q3 revenue was solid growing by 12% at a constant currency (cc), to £483m (or 8% excluding FanDuel), as Online and the US performed well while Australia and Retail lagged. Reported EBITDA decreased by 16% to £101m due to the inclusion of FanDuel sports losses. However, EBITDA rose by 6% cc when losses from US sports betting, start-up losses and the impact from increased betting and fees are excluded.

Online results were the highlight of the release. Here management noted the acceleration within the Paddy Power brand an important development given weakness previously. Online revenues grew by 15% cc to £248m, driven by Sportsbook and Gaming. Sportsbook again displayed decent growth as revenues rose by 17%. Importantly, after weakness over the past few quarters, Exchange returned to positive growth increasing by 1% in the quarter. Gaming revenue picked up from Q2, rising 26% over the quarter. Results in Australia were weaker than expected as revenues declined by 2%. However, this stemmed from a combination of adverse sports results (90bps of the 230bps net margin decline) and increased “generosity” to enhance competitive positioning (aiding in 25% growth in stakes). Management again highlighted tax changes here will lead to opportunity for greater market share. US revenues increased by 22% as solid growth across underlying segments was supplemented by $5 of sports betting net revenue. The Retail segment was weaker falling by 4% over the quarter on the back of poorer sports results.

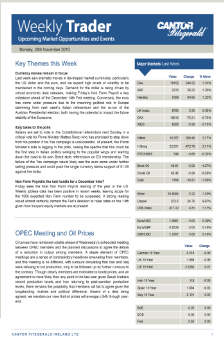
**Comment**

A positive release from PPB following a poor string of results this year. The pickup in Online is significant, particularly exchange and gaming which had been weaker. However, we will need to see continued momentum here to fully alleviate concerns. Importantly investment in the Paddy Power brand is bearing fruits. The US side of the business continues to perform well and we expect positive headlines to continue to emerge over the next couple of months. Australian revenue has suffered. However, investment in the region is a positive, particularly given we are likely to see consolidation in the market place as consumption taxes are rolled out. Retail was weaker than expected and will suffer from increased regulation.

While these were a positive set of results we believe short term headwinds outweigh tailwinds, namely heightened regulatory risk across current markets (clearly displayed recently in Ireland, UK and Australia). The US side of the business offers significant opportunity, with PPB positioning itself well at the offset. However clarity on the extent of the earnings growth potential from the region is still a little way off, with significant contribution to earnings not set to be realised for a number of years. At 18x earnings PPB remains quite expensive relative to both GVC (12x) and William Hill (10x). We maintain our Market Perform 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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## 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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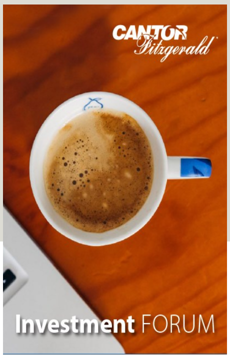


## Investment Forum

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)**

**Apple:** Apple Inc. designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions.

**Paddy Power Betfair:** Paddy Power Betfair Public Limited Company is a betting and gaming company. The Company provides online betting and gaming products

**Historical Recommendation:**

**Apple:** We changed our rating on Apple to Outperform from Market Perform, as of 02/08/2017

**Paddy Power Betfair:** Currently outlook is Market Perform

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