Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Tuesday, 20th November 2018

Morning Round Up

Reuters poll shows US recession chances edge up

The Federal Reserve is still expected to raise interest rates again next month and three times next year, but a strong majority of economists polled by Reuters over the past week say the risk is it will slow that pace down. The probability of a US recession in the next two years, while still low, also nudged up to a median 35% from 30% in the latest monthly Reuters survey of economists taken November 13-19. It held at 15% for the next 12 months. While many developed economies are already slowing, growth in the world's largest economy is still solid, riding the tail-end of a $1.5 trillion tax cut boost, and official unemployment is the lowest in nearly half a century.

But that shine is forecast to start coming off this quarter, with growth slowing more by the end of next year as a trade stand-off with China shows no signs of letting up.

Dollar bulls wary after biggest weekly drop in two months

The dollar steadied on Monday after posting its biggest weekly drop in two months last week as investors grew cautious about the near-term outlook for the greenback after dovish comments by US policymakers. The dollar has been the surprise winner of 2018, having risen nearly 10% from April lows thanks to a combination of interest-rate hikes and strong economic data. But the growing view that US economic growth may have peaked has begun to eat away at these gains. Dovish Fed comments on Friday gave some encouragement to investors to take profits on dollar positions which have risen in recent weeks. Richard Clarida, the Fed's newly appointed Vice-Chair, cautioned about a slowdown in global growth, saying "*that's something that is going to be relevant*" for the outlook for the US economy. Federal Reserve Bank of Dallas President Robert Kaplan, in a separate interview with *Fox Business*, also said he is seeing a growth slowdown in Europe and China. Their comments come at a time when long dollar positions have swelled to their biggest levels in nearly two years despite a modest decline last week, according to futures data.

Latest US Treasury holdings data also weighed on the dollar. China and Japan, the two biggest foreign US creditors, cut their US Treasury holdings further in September as foreign appetite for Treasuries declined.

APEC fails to live up to its name amid US-China acrimony

The C in APEC stands for Cooperation. But when the two biggest members are fighting a trade war and using the forum to attack each other's policies, it was always going to be hard work delivering on that. The weekend's Asia-Pacific Economic Cooperation summit in Port Moresby, Papua New Guinea, was one of open disagreement, led by disputes between the United States and China over trade, security, and who would be the better investment partner for the region. As APEC approaches its 30th anniversary, the failure to agree on a communiqué for the first time calls into question its relevance in a crowded summit calendar and as the Trump Administration makes clear its aversion to multilateralism. It marks the death of APEC's founding trade vision, and it is now the most disposable of the regional summits. Rather than cooperation, the theme seemed to be conflict and containment as Beijing and Washington directly criticised each other's policies and staked their claims as to why they were the security and investment partner the Pacific should choose. The United States even preferred its own terminology of Indo-Pacific, which it defines as running from "*the western shores of Latin America to the furthest reaches of the Indian Ocean*", with US Vice-President Mike Pence mentioning APEC five times and Indo-Pacific 41 times in his summit speech on Saturday.

Founded in 1989 with a view to fostering trade and economic ties around the Pacific Ocean, APEC operated at a ministerial level until 1993 when then US President Bill Clinton established the annual leaders meeting. Each meeting had produced a joint statement at its conclusion, until Sunday, which says it all.

Source: Bloomberg, CF Research November 2018

Key Upcoming Events

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

Market View

European stocks have followed Asian and US markets down this morning after a heavy technology sell off yesterday evening. The Nasdaq finished down over 3% yesterday as Nvidia missed expectations on revenue and guidance, Apple cut production of iPhones and Facebook continues to underperform on management unrest. The movement toward safer assets was clearly evident this morning as the US 10 year and German 10 year fell to 3.04% and 0.35% respectively. EUR/USD has moved back down to 1.143. The market will be keeping a keen eye on housing data out of the US today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25017	-395.78	-1.56%	1.21%
S&P	2691	-45.54	-1.66%	0.64%
Nasdaq	7028	-219.40	-3.03%	1.81%
Nikkei	21583	-238.04	-1.09%	-5.19%
Hang Seng	25840	-531.66	-2.02%	-13.63%
Brent Oil	66.08	-0.71	-1.06%	-1.18%
WTI Oil	56.76	-0.44	-0.77%	-6.06%
Gold	1224	0.24	0.02%	-6.02%
€/$	1.1433	0.00	-0.18%	-4.76%
€/£	0.8905	0.00	-0.07%	0.27%
£/$	1.284	0.00	-0.11%	-4.98%

	Yield	Change
German 10 Year	0.358	-0.02
UK 10 Year	1.383	0.01
US 10 Year	3.0464	-0.02
Irish 10 Year	1.025	0.00
Spain 10 Year	1.653	0.00
Italy 10 Year	3.64	0.0450

Source: Bloomberg, CF Research November 2018

CRH - Strong results. Near term macro to determine share price performance. Closing Price - €23.99

News

CRH released a trading update for the period 1 January 2018 to 30 September 2018. Nine month EBITDA of €2.5bn, was 8% ahead of the same period last year and +2% on a like for like basis. EBITDA growth momentum improved in Q3. Despite significant weather disruption in the quarter, CRH reported an improvement in sales momentum with nine month sales up 6% YoY to €19.9bn. Sales momentum across all regions improved significantly in Q3 driven by both volume growth and product pricing improvements. Acquisitions (Lafarge, CR Lawrence, Fels, Ashgrove) are integrating well with management guiding for a further €100m of cost savings through 2019. Guidance is for FY 2018 EBITDA of €3.35bn, an increase of 6% on 2017. The €1bn share buyback is ongoing.

On the conference call, Albert Manifold (CEO) commented that the group lost 23 working days (normally 6) in its largest US State in October. CRH reported 5% like for like revenue growth in Americas for the third quarter, up from 3% in H1 2018 This a very strong outcome given this significant weather disruption. Cost inflation was also a feature and resulted in EBITDA growth of 3% in Q3. Management remain optimistic on the economic environment in Americas.

Within Europe, 12 out of 15 countries reported price improvements in Q3, signalling the continued progress of the European market. Politics in the UK is weighing but not significant enough at present to move the dial. Europe reported both an improvement in sales and EBITDA momentum in Q3, relative to H1 2018. The European distribution division did report a 4% decline in sales. This is a division that is undergoing a strategic review (possible sale). CRH's smaller Asian division reported a surge in revenue and EBITDA in Q3 but remain insignificant at the group level.

CRH's net debt position will be slightly higher than expected at year end due to currency movements and the buyback. CRH will have returned €1.3bn to shareholders in 2018, equivalent to 6.6% of its current market capitalisation. Guidance is for €7bn in financial capacity between now and 2021.

The analyst presentation is very focused on how management intend to create value for shareholders through consolidating the group from 7 currently to 3 going forward, returning cash to shareholders as best they can, recycling capital from low return businesses to higher return businesses, improving efficiency and productivity, extracting procurement synergies and cross-selling across new markets.

Comment

Despite FY 2018 guidance of €3.35bn being slightly lower than consensus expectations, we see many reasons to cheer on this result. Despite difficult trading conditions, CRH reported good growth in Americas and European business momentum is improving all the time. Acquisitions are integrating well and management remain relative confident on the outlook, with potential for short term EBITDA growth due to cost synergies alone.

We expect €1.85 earnings per share in 2018, up 11% from the adjusted earnings per share of €1.66 reported in 2017. Consensus estimates €2.15 in earnings per share in 2019, which would be on par with 2006/2007 earnings per share when the stock traded between €22 and €30. CRH is a much leaner, cleaner and diversified business since then. If investors can gain confidence that CRH can deliver €2.05 earnings per share or better in 2019 then the stock will trade back up to €30 (15x 2019 earnings). To trade up to €35 or higher, investors will want comfort that both the US and Europe remain on a growth course through 2020/2021.

Current valuations are compelling (12.9x 2018 net income) and this was a positive trading update. Key catalysts for near term performance would be an improvement in US housing data, an improvement in US/China relations, a less hawkish FED (starting to see this) and an improvement in EU sentiment (Italy/Brexit).

Darren McKinley, CFA | Senior Equity Analyst

easyJet- FY18 results lead airline sector to fall

Closing Price - £11.75

News

EasyJet released a mixed set of FY18 results this morning. Headline numbers for the full year were solid, generally beating on expectations however revenue per seat guidance for H1/19 remained negative driven by difficult comparables from 2018. Revenue grew by 16.86% to £5.89bn, above expectations of £5.85bn. Ebitda grew by 26.97% to £791m, missing street estimates of £822m. Net income grew by 43.4% to £466m, beating estimates £463m. Cost per seat (ex fuel) grew by 4.8% from a constant currency perspective (cc), due to a combination crew cost inflation, higher levels of disruption and expansion into Tegel. Proposed dividend (subject to shareholders approval) per share was 58.6p an increase of 43%. Revenue per seat increased by 4.7% to £61.94. It carried a total of £88.5m passengers for the full year with a 92.9% load factor. Outlook for the remainder of the year was mixed. Revenue per seat for the first half of the year (30/09/2018 - 31/03/2019) is expected to be down by low to mid single digits, as previously guided. However management noted that this is also factor of difficult comparables from last year, including the annualization of one off revenue benefits. On a more positive note it highlighted that forward booking for the first half of the year are solid, with summer looking promising, even at this early stage. An important statement given Brexit. Capacity is forecast to grow by 15% for H1/19 and 10% for the full year. Ex fuel cost per seat is expected to be flat.

Comment

Despite a number of positives in this release the stock has fallen by 3% this morning. Importantly (given the contribution to recent volatility), CEO Johan Lundgren told reporters on Bloomberg this morning that he saw little risk of disruption to flights when the UK exits the European Union as both sides are taking the necessary steps to maintain services in the event of a no deal. Taking it as a read through for the sector, particularly Ryanair, the optimistic tone on Brexit should be received well, however guidance on fares will weigh on sentiment. Ryanair, along with the broader airline sector, has followed EasyJet lower this morning. Sentiment over the past 5 months toward the airline sector has been negative due to the combination of higher oil, sector capacity growth and Brexit. We continue to like Ryanair post the current financial year however we will need to see Brexit risk subside and a more positive outlook on fares for the coming summer period at it’s next set of quarterly results in February.

David Fahy, CFA | Investment Analyst

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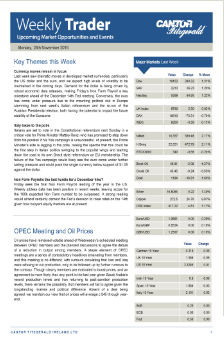

Weekly Trader

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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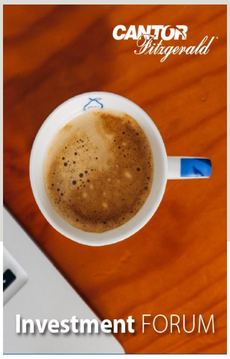

Investment Forum

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)
CRH: CRH is a global building materials group
easyJet plc: easyJet is a low-cost passenger airline, conducts operations throughout the United Kingdom and mainland Europe.

Historical Recommendation:
CRH: We have added CRH to our core portfolio on the 01/01/16, with a recommendation of Outperform
easyJet plc: We do not have a rating on easyJet
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