Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 21th November 2018

Morning Round Up

Market volatility set to continue

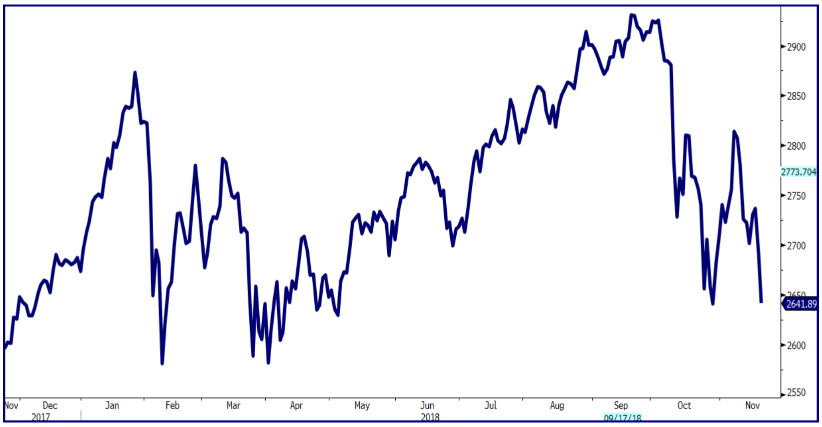
Volatility continues to be theme this year as market sentiment flip flops on almost a day by day basis. Yesterday we saw a rare occurrence, assets classes across the board fell. Equities, commodities, treasuries and safe haven currencies all dropped, leaving investors little places to hide. However again, as anticipated, markets have seesawed opening up more positively this morning. A slew of factors continue to drive negative sentiment. Firstly the market has come to the realisation that we have probably hit peak cycle earnings and economic growth. Secondly the trade war between the US and China has yet to see any form of resolution, with hopes resting on the meeting between President Xi and President Trumps meeting next week in Argentina. Thirdly the Fed continues its rate hiking cycle, the primary factor responsible market weakness according to Trump. Fourthly in Europe, fears over Brexit, the Italian budget and the overall functionality of the Eurozone going into a year of elections has been adding to jitters. Finally and most importantly the market is more than aware we are in the late stage of a 9 year bull run. While we remain positive on equities into year end, the aforementioned reasons are why we continue to advise clients to stay overweight defensive equities. This weeks Trader, includes gold, healthcare, food & Beverage and REITs.

Bank of England's Carney backs Theresa May's "Brexit" deal

As Theresa May heads off to Brussels to meet with European Commission President Jean-Claude Juncker this evening, Bank of England Governor Mark Carney gave his backing yesterday to the "*Brexit*" deal struck by the British Prime Minister and European Union officials because it would help smooth the country's departure from the bloc. "*We have emphasised from the start the importance of having some transition between the current arrangements and the ultimate arrangements*," he said. "*So we welcome the transition arrangements in the withdrawal agreement ... and take note of the possibility of extending that transition period.*" May last week agreed a withdrawal deal with Brussels. But it faces stiff resistance in her Conservative Party, meaning it could fail in parliament. Carney, speaking to lawmakers, also said a planned analysis by the central bank of the economic implications of "*Brexit*" would not include an assessment of the effect of Britain deciding to stay in the bloc. "*We're not intending to look at providing additional analysis on the third scenario which is no "Brexit" at all*," Carney said. He also said a "*no deal*" scenario could plunge the UK economy into a crisis not seen since the 1970s.

Carney and other Bank officials speaking alongside him on Tuesday repeated their warning to investors not to assume that the central bank would respond to a no-deal shock by cutting interest rates, as it did after the "Brexit" referendum in 2016.

One Year S&P 500



Source: Bloomberg, CF Research November 2018

Key Upcoming Events

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

Market View

European markets have opened up by close to 1% this morning, following a poor day across the board yesterday. US equities are set to follow this afternoon with the futures market pointing to a strong open. Oil has bounced back by 1.7%, after falling 6% yesterday. WTI and Brent now sit at $54.37 and $63.26 respectively. The Euro has pushed higher on reports that the Italian government may be open to some form of budget revisions. Yields have rising in tune with the risk on sentiment. The US and German 10 year yields have push up to 3.08% and 0.373% respectively.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24466	-551.80	-2.21%	-1.03%
S&P	2642	-48.84	-1.82%	-1.19%
Nasdaq	6909	-119.65	-1.70%	0.08%
Nikkei	21508	-75.58	-0.35%	-5.52%
Hang Seng	25971	131.13	0.51%	-13.19%
Brent Oil	63.22	0.69	1.10%	-5.46%
WTI Oil	54.49	1.06	1.98%	-9.81%
Gold	1225	3.09	0.25%	-5.99%
€/$	1.1382	0.00	0.11%	-5.19%
€/£	0.8903	0.00	0.12%	0.24%
£/$	1.2785	0.00	-0.02%	-5.39%

	Yield	Change
German 10 Year	0.366	0.02
UK 10 Year	1.398	0.02
US 10 Year	3.0773	0.01
Irish 10 Year	1.03	0.01
Spain 10 Year	1.638	-0.01
Italy 10 Year	3.56	-0.0620

Source: Bloomberg, CF Research November 2018

Dalata Hotel Group - Hotel rooms on sale! Closing Price - €4.65

News

DHG has 7,820 rooms currently available for sale via its 36 hotels across Ireland (27) and the UK (9). Management have a pipeline of 2,200 rooms (28%) coming on stream between 2019 and 2021 via extensions, development and new leases in the UK which have been confirmed. DHG are also adding over 1,000 rooms this year, with the majority in Ireland, which will be a key driver of earnings growth next year.

Demand for hotel space in Ireland is very strong with visitors to Ireland in 2017 hitting 10m, up from 8m in 2017. Dublin Airport added 15 new routes in 2018 including direct flights to Hong Kong, Beijing, Philadelphia and Seattle. The new runway and terminal planned for Dublin Airport will allow it to handle 40 million passengers by 2023 - representing an increase of 33% on current numbers of 30m passengers handled (of which 10m are visitors to Ireland). Roughly 35% of visitors are from the UK implying why the company is considered sensitive to Brexit.

Dublin occupancy is running at 85% with an average room rate of €147.4 currently. While a hard Brexit would likely have a negative impact on both these stats, the shortage of hotel rooms in Dublin would support pricing. The draft agreement would ensure Ireland as a holiday location for European and UK tourists given the value relative to other large tourism cities in Europe such as Geneva, Paris, Zurich, London and Rome.

We rate DHG management very highly given their track record of revenue, profit and cash flow growth over the last few years. DHG reported 20% revenue growth in FY 2017 and 23% increase in EBITDA to €105m. H1 2018 reported a similar pace of revenue and EBITDA growth and we expect H1 2019 growth to be supported by the 1,000 rooms added to DHG's portfolio in H2 2018.

Management are also keeping a firm focus on capital structure by limiting net debt to EBITDA to 3.5x, returning cash to shareholders by way of dividends and adapting a new leasing model to drive growth. DHG have recently signed agreements with three high profile institutional landlords Deka Immobilien, M&G Real Estate and Aberdeen Standard. DHG has a current loan to tangible asset value of 26.8%. DHG is that attractive to lending institutions that they are supported by six banks.

Comment

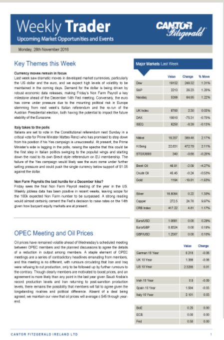
DHG shares have declined by 35% since mid-September and 24% over the last year. From a technical point of view, DHG shares are now the most oversold they have been since the outcome of the Brexit referendum. DHG shares trade on 11.5x current year earnings and 1x book value and offer investors a c.2% dividend yield (maiden yield this year) on a c.20% dividend pay out ratio. Consensus expects EBITDA and earnings per share to grow by 18% and 12%, respectively in 2019 driven by new developments. DHG is also expected to turn free cash flow positive in 2019, which along with a dividend yield would attract a new investor base.

DHG will report record earnings in 2018 despite its shares currently trading at a multi-year low. DHG is being sold off because of its UK exposure which represents 20% of group revenue as of FY 2017.

Our fair value based on current fundamentals is €6.25 implying 33% upside. We view the recent sell-off as an opportunity to acquire DHG on the basis that Britain doesn't crash out of the Eurozone. In that event, all equities in Europe are likely to fall. We assume the draft deal to be improved & accepted or else for the UK/EU to agree to further time to negotiate exit terms.

Darren McKinley, CFA | Senior Equity Analyst

Cantor Publications & Resources



Weekly Trader

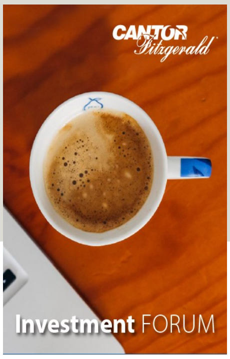
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, 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)
Dalata: Dalata owns and operates hotels
Historical Recommendation:
Dalata: We initiated an Outperform rating on Dalata on the 21/11/2018

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 retails 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 recommendations 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 purchased or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommend 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 to 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 affect 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 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