Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Thursday, 22nd November 2018

Morning Round Up

Bending the rules
Reuters has reported that Greece's central bank is working on a plan to help the country's banks offload up to €42bn in bad debts, according to people familiar with the discussions. Lenders have agreed with the European Central Bank to shrink bad loans to €64.6bn by the end of 2019. Non-performing exposures stood at €88.6bn or 47.6% of banks' overall loan book, at the end of June. Under the Bank of Greece's plan, lenders would transfer about half of their deferred tax claims to a special purpose vehicle. The vehicle will then sell bonds and use the proceeds to buy up bad loans from the banks. Greek banks are stuck in bad-debt purgatory. The central bank is working on a plan to get them out, but it will need the European Commission to turn a blind eye.

The country's banks are saddled with dud loans after years of recession, and under pressure from the European Central Bank to clean up their books. They need to reduce non-performing exposures by 37% by 2020. Even then, bad loans would still equate to over a third of their projected lending. A traditional sale looks like a Sisyphean task. Taking into account existing provisions, banks would have to sell loans at around half their face value to avoid further losses. Recent disposals have fetched about 30 cents on the euro. Selling €42bn of loans at that price would imply at an extra €7.8bn of losses, equating to nearly 40% of banks' common equity. Securitisation might help. Selling the loans to a special purpose vehicle would allow the loans to be gradually worked out, avoiding a fire sale. Yet the banks would still need to find investors to fund the vehicle, and they may be reluctant to pay a price for the loans that's high enough for lenders to avoid further losses.

However, the banks might have a secret weapon. The four biggest lenders have around €16bn of deferred tax assets, according to Moody's, from past write-downs that they can use to set against future tax liabilities, or, in some cases, to cover losses. The idea is to transfer that hypothetical claim against the government to the securitisation vehicles along with the loans, creating a cushion to absorb losses if the loans recover less than expected. But it's not a done deal. Investors in the securitisation vehicle might not want to own hard-to-trade quasi-government claims, particularly from an issuer like Greece. And the deal could worry the European Commission, since turning a contingent asset into a form of guarantee looks a lot like state aid. But if Brussels wants to avoid a new Greek banking crisis, it may be open to a looser interpretation of the rules.

AIB to sell another €1bn in non performing loans
Bloomberg News reported that AIB is preparing to sell €1bn in distressed buy to let (BTL) and business loans. The transaction is expected to be completed in H1 2019. Reducing the non performing exposure (NPE) is a key milestone to release excess capital, however, we think the recent management change likely delays this decision into 2020.

John Deere report earnings
John Deere reported Q4 2018/FY 2018 financial results yesterday. For FY 2018, the group reported a 26% increase in revenue to $37.4bn and a 41% increase in adjusted earnings per share to $9.39. For FY 2019, John Deere has guided for low-mid single digit growth in its Agri & Turf division and for c.15% growth in its Construction and Forestry division. Group operating cash flow is expected to increase by 50% in 2019 driven by a 7% increase in group revenue and a 20% increase in net income. This positive FY 2019 guidance should be taken well by investors. The stock closed up 2.4% and trades on 12x 2019 earnings – the cheapest valuation multiple in three years.

Source: Bloomberg, CF Research November 2018

Key Upcoming Events

25/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

Market View

US markets had a positive day yesterday, with the tech heavy NASDAQ closing almost 1% higher prior to markets closing today for Thanksgiving. Asian trading was mixed with low volume, Japan and Hong Kong finished stronger, while Shanghai closed marginally down. European markets opened negatively this morning, again on light volumes. With the US closed today, markets will be looking at Mrs May, who is in Brussels for the EU leaders summit on Saturday to sign the UK's exit agreement. Markets continue to weigh the importance of the G20 meeting of President Trump and President Xi next week in Argentina.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24465	-0.95	0.00%	-1.03%
S&P	2650	8.04	0.30%	-0.89%
Nasdaq	6972	63.43	0.92%	1.00%
Nikkei	21647	139.01	0.65%	-4.91%
Hang Seng	26000	28.89	0.11%	-13.10%
Brent Oil	62.91	-0.57	-0.90%	-5.92%
WTI Oil	54.24	-0.39	-0.71%	-10.23%
Gold	1228	1.48	0.12%	-5.78%
€/$	1.1404	0.00	0.18%	-5.01%
€/£	0.8920	0.00	0.12%	0.44%
£/$	1.2784	0.00	0.05%	-5.39%

	Yield	Change
German 10 Year	0.362	-0.01
UK 10 Year	1.384	-0.01
US 10 Year	3.0627	0.00
Irish 10 Year	1.003	-0.01
Spain 10 Year	1.634	0.00
Italy 10 Year	3.52	0.0450

Source: Bloomberg, CF Research November 2018

Ryanair - Continues to grow

Closing Price: €11.91

News

Yesterday, Ed Jacobs confirmed that Ryanair will not be bidding on Flybe Group, which has been hitting headlines recently over speculation that it will be acquired. He did however tell reporters that organic growth will include French regional airports with unionisation opening options in the country. Expansion in Germany will be reined in as labour conflict continues. Mr Jacobs confirmed he expects full contract deals with unions in the majority of its main markets by March. He also noted that demand so far has not been impacted by Brexit uncertainty as Easter ticket sales are solid.

Separately it is expected to announce an investment of $1.5bn in Ukraine over the next 5 years, with the aim of adding 5m passengers over the next 3 to 5 years. This summer it expects to carry 1m passengers from the country.

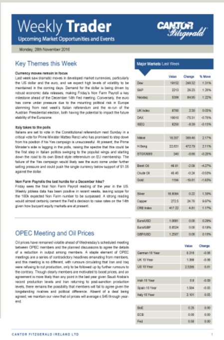
Comment

Despite the collection of headwinds that have emanated this year Ryanair continues to expand, rolling out its plans of 200m passengers by 2024. Progress continues to be made with unions however German pilots, Spanish cabin crew and Portuguese cabin crew are causing a headache. Last week we met with management to discuss recent half year results. Again management cited fares will remain negative (-2%) for H2/19 (30/09/2018 - 31/03/2018) in line with easyJets guidance on Tuesday. However, despite it being early days, management are more optimistic on fares moving into the summer. Sentiment has weighed on the European airline sector due to peaking capacity, rising costs (namely oil), lower fares and Brexit. This is clearly evident as we have not seen a rerating on the back of the recent drop in oil prices.

It is unlikely we will see the Ryanair push past the €13-€13.50 mark until Q3 results in February where we will need further guidance on fares into the summer period. Consolidation will continue in the market place with a number of smaller airlines feeling the pinch under higher costs and capacity growth. We remain positive on Ryanair from a 12m perspective with a price target of €16.

David Fahy, CFA | Investment Analyst

Cantor Publications & Resources


Weekly Trader

Key Themes this Week

OPEC Meeting and Oil Prices

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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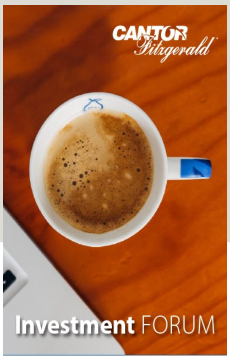

Investment Forum

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)
AIB Group: AIB Group PLC provides commercial banking services for retail and institutional customers
Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.
Deere & Company: Deere manufactures and distributes a range of agricultural, construction, forestry, and commercial and consumer equipment.

Historical Recommendation:
AIB Group: We moved our rating from outperform to market perform on the 25/06/2018
Ryanair: Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then
Deere & Company: We do not have a rating on this stock

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