Daily Note

Views, news and topics from today's markets

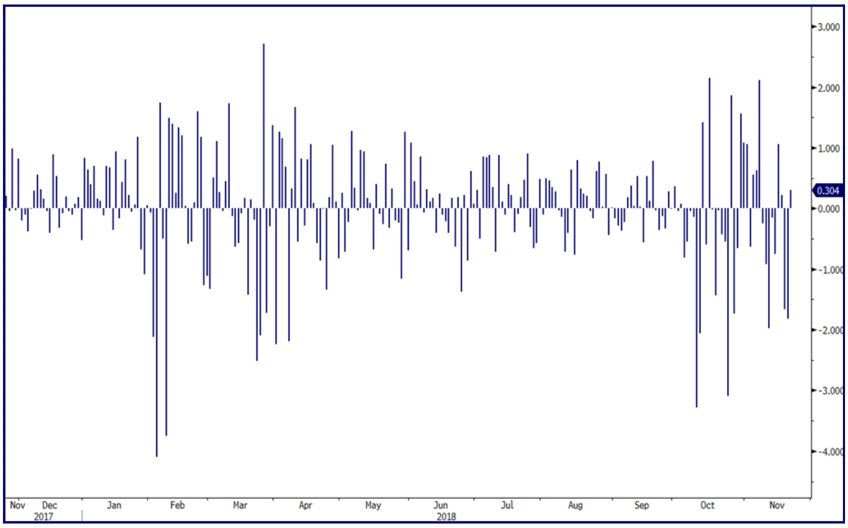
Friday, 23rd November 2018

Morning Round Up

A Bit of Swag

US President Donald Trump and his Chinese counterpart Xi Jinping are due to meet on the side lines of the G20 leaders' summit in Buenos Aires, Argentina which starts tomorrow week. The Trump administration said on November 20 that China had failed to alter its "unfair" business practices. The findings were issued in an update of the US Trade Representative's "Section 301" investigation into China's intellectual property and technology transfer policies. The United States announced tariffs on $50bn worth of Chinese goods in June, and later widened their scope to cover goods imports of $250bn. The relationship between Trump and Xi hangs on big numbers and big egos. The two leaders' upcoming meeting in the Argentinian capital as part of the G20 summit is weighing on markets. Despite discord among his aides, the US President has the autonomy to strike a deal if China offers the right incentives. What's at stake is whether the world's two largest economies can call a truce in an escalating trade war. Tough talk from trade hardliners such as US Trade Representative Robert Lighthizer and Vice-President Mike Pence over how to handle China don't reassure. In the past, though, Trump has backed different factions at various times. He's known to follow his gut instinct, so much depends on what Xi puts on the table. Neither leader is as strong as they once were. Trump's Republican party lost control of the US House of Representatives in the November mid-term elections. Major US stock indices have given up most of this year's gains. In China, meanwhile, leaders face an economy growing at its slowest pace since 2009. New loans, which fuel growth, halved in October from the month before. So what could China offer? While US complaints have focused on Chinese intellectual property theft, the President returns time and again to the $500bn in goods imported from China. He previously rejected a Chinese offer to buy an additional $70bn in US goods, but increasing the pitch to $200bn may be more persuasive. It would halve the bilateral trade gap, which was $375bn in 2017. For best results, add flattery. European Commission President Jean-Claude Juncker gave Trump a picture of General George Patton's grave in Luxembourg and won a surprise tariff ceasefire. China already treated Trump like an emperor during his last trip to Beijing, and has dropped its former habit of giving away pandas. A military-themed memento though – perhaps commemorating America's role in World War II – could win enough goodwill to spur trade talks. One thing to watch is whether the two meet in private. The US President declined to criticise Russian President Vladimir Putin in July after an entourage-free tête-à-tête. A two-man show, with a big number and some swag that Trump can carry home, might just calm nerves and markets on both sides.

1 Day Percentage Moves—S&P 500



Source: Bloomberg, CF Research November 2018

Key Upcoming Events

25/11/2018 EU Leaders Summit
29/11/2018 Fed Minutes
30/11/2018 G20 Summit

Market View

Yesterday saw selling on light volumes as the US market was closed for Thanksgiving. Asian markets sold off over night with Shanghai down 2.5% with Technology the weakest sector on Trade concerns. Europe has opened positive this morning as volumes are expected to remain light today. Yields are moving higher this morning. The US 10Y is trading at 3.07% and the German Bund is at 37bps. Markets will be watching flash PMI data from Europe and the US today, while attentions turn to the European Council meeting over the weekend and the G20 summit next week.

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	25928	-91.73	-0.35%	-13.34%
Brent Oil	61.93	-0.67	-1.07%	-7.39%
WTI Oil	53.28	-1.35	-2.47%	-11.82%
Gold	1223	-6.04	-0.49%	-6.16%
€/$	1.1385	0.00	-0.16%	-5.16%
€/£	0.8865	0.00	0.11%	-0.18%
£/$	1.2843	0.00	-0.26%	-4.96%

	Yield	Change
German 10 Year	0.369	0.00
UK 10 Year	1.414	-0.01
US 10 Year	3.07	0.01
Irish 10 Year	1.002	-0.01
Spain 10 Year	1.626	-0.01
Italy 10 Year	3.38	-0.0730

Source: Bloomberg, CF Research November 2018

Origin Enterprises - Very positive trading update

Closing Price: €5.80

News

Origin Enterprises released its Q1 2019 trading update this morning which was as positive an update from management that we have reviewed in a number of years. Demand levels for agronomy services and crop inputs were strong in the period, supported by a combination of early season timing and generally improved sentiment on-farm. The planting profile for autumn and winter cropping is broadly favourable across most of their markets. Group revenue was €430.0 million for the three months compared to €346.7 million in the corresponding period last year, an increase of 24.0%. On an underlying basis at constant currency, revenue increased by €62.4 million (18.0%), reflecting higher seed, crop protection and fertiliser volumes and prices in the period. Underlying volume growth in agronomy services and crop inputs (excluding crop marketing volumes) was 13.7% in the period.

Ireland and the UK delivered a good performance recording underlying volume growth in agronomy services and crop inputs of 14.4% in the period. In particular, this performance was positively supported by seasonal timing and volume contribution from the Bunn fertiliser business which was acquired in the prior year. In Q1, this division reported €261m of revenue(+18% YoY in constant currency). Digital Agricultural Services has commenced the year with positive momentum following the on-boarding of over 700,000 hectares onto the Group's digital platform, Contour, in 2018. The emphasis for the 2019 financial year remains on product enhancements and the continued roll out of Contour across Origin's core markets. Continental Europe delivered a satisfactory performance recording underlying volume growth in agronomy services and crop inputs (excluding crop marketing volumes) of 11.9% in the period. Operating conditions continue to be challenging due to poor crop establishment in respect of winter oil seeds resulting in cautious on-farm sentiment. In Q1, this division reported €101.8m of revenue(+28%YoY on constant currency). Origin entered the Brazilian market on 14 August 2018 through the complementary agronomy acquisition of Fortgreen. Fortgreen has delivered a good maiden contribution in the period, with performance in line with expectations.

The UK's exit from the European Union continues to be an area of focus. Given Origin's well-diversified businesses in Ireland, the UK, Continental Europe and Latin America, the Group is able to maintain a flexible approach to dealing with the potential challenges that might arise following Brexit. We believe that Origin have prepared well for any short-term logistical disruption that may result from a no deal Brexit by diversifying into other markets outside of the UK.

Comment

Origin Enterprises shares have been consolidating between €5 and €7 for the last 30 months with its shares now trading at €6 (-33% from its high of €9 recorded in 2015). Origin shares have been weighed down by lower soft commodity prices, weaker sterling and poor on-farm sentiment. Origin trades on 11x our current year's earnings and offers investors a 3.5% dividend yield. We rate Origin Enterprises an outperform because we like management's strategy of cloning their UK business model across Continental Europe and Brazil which has been management's strategy post some attractively valued acquisitions in these markets. The acquisition of Fortgreen in Brazil will also reduce the seasonality of the business going forward. The improvement in on-farm sentiment across all of its key markets would suggest that the revenue and earnings outlook could be better than previously expected. We think Origin will deliver record earnings per share next year and its shares could re-rate up to €8 over the next 12-18 months which would be considerable upside. A "No-Deal Brexit" would likely see the stock come under short term pressure.

Darren McKinley, CFA | Senior Equity Analyst

Datalex - Reaffirms guidance

Closing Price: €2.20

News

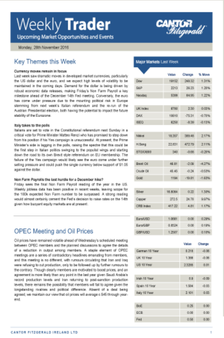
Datalex released a short trading update this morning where it reiterated it's positive stance into year end and beyond. In the update it noted the significance of the SAS deal, the company's first deployment of the Digital Commerce Platform in a cloud environment. Due to the infrastructure built previously, it will generate platform revenue by early 2019. Progress continues to be made on the roll out for both Lufthansa and Multiplus (loyalty), with expectations of the delivery of both platforms by the end of 2018. Management again highlighted the number of opportunities in the loyalty space and the strength of the pipeline, with the expectation of new customer announcements in the coming months. It reiterated guidance of delivering double digit Ebitda growth in 2018, with performance year so far this year in line with expectations. It expects to deliver this level of growth for following two years.

Comment

Despite there being little new information this was a solid release. It will continue to deliver on its growth trajectory and new customers will be announced. We expect further interest in Datalex's products when Lufthansa and Multiplus go live this year. The digital travel commerce sector is at an early growth stage, with airlines in particular, moving toward a broader suite of loyalty and ancillary offerings. With the lead in time of platform integration now significantly reduced under the cloud software, we will continue to see short implementation periods (as we will with SAS). The stock has suffered from its illiquidity over the past year with it now trading 11x FY18 EV/EBITDA (historically traded in the 20's). This is a cheap valuation given the growth opportunity. We expect it to generate further interest from investors with continued announcements, the roll out of new customers and the posting of double digit profit growth. We maintain our Outperform rating.

David Fahy, CFA | Investment Analyst

Cantor Publications & Resources



Weekly Trader

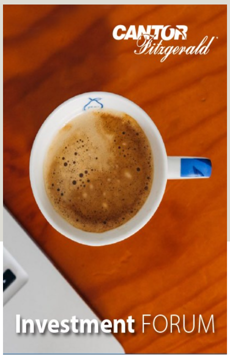
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

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)

Origin Enterprises: Origin Enterprises is a focused Agri-Services Group with strategic investments in consumer foods and marine proteins and oils.

Datalex: Datalex provides e-business infrastructure and solutions to customers in the global travel industries.

Historical Recommendation:

Origin Enterprises: We have an Outperform rating on Origin

Datalex: We have an Outperform rating on Datalex

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