Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 30th November 2018

Morning Round Up

US - China trade outcome to define markets

President Trump and President Xi's meeting at the G20 summit in Buenos Aires has the capacity to define the recent trade war. At present there are $250bn worth of tariffs on Chinese imports to the US, $50bn of which are at 25% with the remaining $200bn currently at 10%. China currently has tariffs on $110bn of US imports. In January the $200bn tariffs is set to be increased to 25% with a Chinese reaction to follow. Trump has already threatened to impose tariffs on the remaining $267bn worth of Chinese imports, should the Chinese hit back in January. This is all unless we see some form of progress on Saturday, with even a more conciliatory tone set to be welcomed by the markets. Trump has taken his usual confrontational stance in the run up to the negotiations, while China have reported more positive expectations. The state run China Daily newspaper have stated that both sides can reach an agreement but Washington must be "fair minded" if it wants to defuse spiralling tensions. The stakes are high for both countries with fears over economic growth slowing (in China in particular). Official data on Friday showed that growth in China's manufacturing sector stalled for the first time in more than two years in November. New export orders declined for a sixth straight months, according to an official survey of Chinese manufacturers.

Should we achieve a favourable outcome expect risk assets including cyclical/growth equities, emerging markets, commodities and corporate bonds to outperform into yearend. We will advise on Mondays trader the best possible allocation given developments over the weekend.

UnitedHealth Group CMD sends stock to record highs

UnitedHealth Group has reached record highs following its capital markets day mid-week. While there was no major changes to guidance for 2019, management outlined its capacity in achieving its long term 13%-16% guided annual EPS growth rate. During the day the company emphasized both the potential for the Optum segment and UNC (insurance) segments ability to leverage off it. Revenues are expected to advance by 10-11% in Optum next year with OptumHealth (14%-18% revenue growth) at the forefront . In the UNC segment, Medicare advantage, commercial and international segments are expected to perform again in 2019. UNH represents a rare combination of defensive (large cap healthcare) and growth. We continue to advise clients to pick up the stock. Our Cantor US team has a price target of $310. We maintain our Outperform rating.

Permanent TSB moves to securitise £1.3bn in NPLs

Permanent TSB announced the completion of Project Glenbeigh, €1.31bn securitised loan portfolio. The move will see the bank's NPL ratio fall to single digits from a December 17 figure of 26%. The loan book is made up of mostly Private Dwelling Home (PDH), which management withdrew from the Project Glas sale earlier in the year due to political pressure. The bank will receive €890 and the loans have a carrying value of €910mln, with proceeds ear marked for "general corporate purposes". The transaction is expected to generate an additional 30bps in CET 1 equity. Progress on NPL has been managements primary goal, with significant developments year to date. However, we retain our view that the bank has significant structural issues regarding its cost base and profitability, which management have yet to address.

Source: Bloomberg, CF Research November 2018

Key Upcoming Events

29/11/2018 Fed Minutes
30/11/2018 G20 Summit
11/12/2018 UK Parliament vote on Brexit
13/12/2018 ECB Meeting
13/12/2018 EU Summit

Market View

Markets were somewhat quiet yesterday in advance of today's G20 meeting as investor await some developments on trade. US markets finished down c. 20bps, while Asian trading was somewhat more positive overnight. European markets have sold off so far this morning, with US futures pointing to another negative open. Markets will be firmly focused on Buenos Aires over the weekend. President Trump and President Xi are set to have dinner on Saturday night, which will be the focal point of the weekend. On the data front, there is a raft of European data points out today with European Core Inflation the number to watch.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25339	-27.59	-0.11%	2.51%
S&P	2738	-6.03	-0.22%	2.40%
Nasdaq	7273	-18.51	-0.25%	5.36%
Nikkei	22351	88.46	0.40%	-1.82%
Hang Seng	26507	55.72	0.21%	-11.41%
Brent Oil	59.49	-0.02	-0.03%	-11.04%
WTI Oil	50.9	-0.55	-1.07%	-15.76%
Gold	1223	-0.96	-0.08%	-6.11%
€/$	1.1374	0.00	-0.17%	-5.26%
€/£	0.8901	0.00	-0.09%	0.23%
£/$	1.2779	0.00	-0.09%	-5.43%

	Yield	Change
German 10 Year	0.313	-0.01
UK 10 Year	1.346	-0.02
US 10 Year	3.0169	-0.01
Irish 10 Year	0.911	-0.01
Spain 10 Year	1.507	0.00
Italy 10 Year	3.23	0.0300

Source: Bloomberg, CF Research November 2018

Cairn Homes - Trading at 30% discount to adjusted book value

Closing Price: €1.31

News

Cairn Homes has sold off despite the supply/demand dynamics of the residential market very much in favour of financially strong homebuilders with the Dublin market still undersupplied by 15,000 units per annum. With the Irish banks now better capitalised, mortgage lending has rebounded significantly over the last few years which is supporting demand for new builds. First time buyers are incentivised to purchase a house given the lower cost of a mortgage relative to rent and the governments first time buyer grant which offers FTB's up to €20,000 toward a deposit. Central Bank debt to income restrictions should help ensure the market remains relative stable at current levels with limited risk of a future price shock.

House price inflation has started to ease but remains healthy at c.5% per annum. 5% house price inflation can filter down to c.10-15% inflation in development land value which is hugely significant for Cairn Homes book value which is back by development land collateral.

Although labour and material (50% of COGS) cost inflation is running at c.5% per annum, management are looking at other build methods such as timber frame and modular builds to keep costs in check. We expect Cairn Homes gross profit margin to sustain above 20% at current prices and costs.
2018 will be significant for Cairn Homes as they target 800 unit sales, generating revenue of €350m and delivering a significant improvement in profitability. Management now expect to sell 1,400 units in 2021 and generate €350m-€400m in free cash flow between now and 2021. This would equate to 30% of its current market cap.
Plans are for landbank to be run down toward 8,000 units from its current 14,500 unit position. The monetisation of 6,500 units could generate between €400m and €700m in cash flow over time. New developments in Greystones, Citywest, Griffith Avenue and Newcastle will drive the growth profile over the next 2-3 years. These are all very attractive locations and considered relatively low risk to growth outlook.

Comment

Cairn Homes shares have declined by 33% year to date to €1.30. I first recommended Cairn Homes as a "Buy" at €0.90-€1.05 post IPO before moving to a "Sell" at €1.55+ in H2 2017. Post the correction, we recommend "Buy" once again.
Cairn Homes shares trade at 0.7x adjusted book value (market value). Post a solid interim result, Cairn Homes is on course to report 140% growth in revenue (€350m) in 2018 and 40% growth in 2019. Earnings per share is expected to grow to 9c next year and 13c by 2020 which leaves the company trading on 10x 2020 earnings. More significantly, we expect the company to turn free cash flow positive next year which sets them up to pay a dividend and buyback stock next year.
We are confident that current levels offer significant value for investors to pick up some Cairn Homes Stock. We set December 2019 target price at €1.70 which offers 30% upside.

Darren McKinley, CFA | Senior Equity Analyst

Allianz - Capital markets day sets out the future

Closing Price: €189.32

News

Allianz are holding a Capital Markets Day today, reviewing its performance over the past three years and setting expectation for next three years. Management are guiding for Group Operating profit of greater than €11bn, Gross Written Premium (GWP) greater than €50bn, assets under management (AuM) greater than €2tn and a solvency ratio of 225%. Over the previous three years management deliver 7.1% EPS CAGR, ahead of its own 5% target. The business delivered a 13.8% return on equity, again ahead of its own target of 13%. The stock has generated a total return of 29% over three years compared to 9% for the STOXX 600 Insurance index.

Allianz's balance sheet is one of the strong amongst global insurers, and has averaged €1-2bn in M&A over the past two years. Management have proveded shrewd in allocating capital and we expect this to continue as management have capacity for some mix of M&A, internal investment and shareholder returns more recently. Allianz has struggled to find any large scale M&A to deploy capital. As a result it will focus investment in the near term on internal improvements to drive profitability.

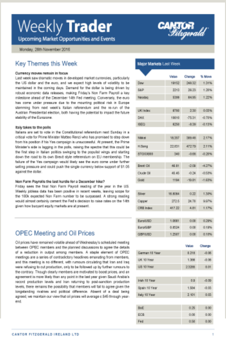
Management laid out its three year targets for the business. It's looking to maintain a CAGR greater than 5% growth in EPS and a return on equity (ROE) of 13% between 2019 and 2021

Comment

Allianz has been weaker than its European insurance peers this morning on the back of the plans laid out in today's analysts presentation. There was very little news details for the market and future guidance was conservative given the strong performance over the previous three years. 2018 is on track to deliver strong results and Allianz looks set to continue to generate c. 13% return on equity. We view Allianz as a cornerstone holding within a portfolio, producing a good yield while providing some defensive characteristics. We think below €190 is a good entry point to build a position in a very high quality stock. We retain our Outperform rating.

Pierce Byrne, 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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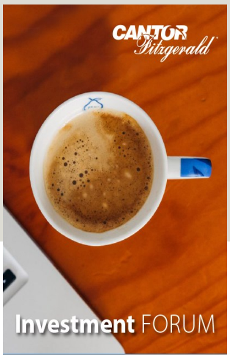

Investment Forum

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)

UnitedHealth Group: Incorporated owns and manages organized health systems in the United States and internationally

PTSB: Permanent TSB Group Holdings Plc provides personal financial services in the Irish market with strong market positions in life and pensions, fund management and retail banking

Allianz: Allianz, through it subsidiaries, provides insurance and financial services.

Cairn Homes PLC: Cairn Homes Public Limited Company provides construction services. The Company design and build homes. Cairn Homes operates in Ireland.

Historical Recommendation:

UnitedHealth Group: We have had an outperform rating on UnitedHealth Group since 09/07/2018

PTSB: We have changed our outlook on PTSB to "Market Perform" from "Outperform" on the 26th of July 2017

Allianz: We have been positive on Core Portfolio stock, Allianz since 24/04/14 and no changes have been made to the recommendation since then.

Cairn Homes PLC: We initiated an Outperform rating on the 30/11/2018
http://www.cantorfitzgerald.ie/research_disclosures.php

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