

Tuesday, 6th November 2018

Morning Round Up

US Midterm elections today

Polls open in the US today with seats in the House of Representatives (lower house) and a third of the seats in the Senate (upper house) up for re-election. The Republican party currently holds a majority in both houses as well as the executive office of the President. The likely outcome sees the Democratic Party take the House of Representative with the addition of c. 40 seats giving the party control with a c. 20 seat majority. The senate, which has 100 seats, has 35 seats up for re-election. The senate is currently split with a 51-49 majority for the Republican party and a change in control would require a 2 seat swing, which will be difficult considering 23 of the 35 seats up for re-election are Democrat seats leaving only 12 Republican seats to turn. On balance, we see the House of Representatives switching to Democratic controlled, which is not necessarily a positive for markets. Legislative gridlock in Washington will provide President Trump with a scapegoat and result in him using executive powers to push through his agenda. Maintaining the status quo would be the preferred outcome for markets in the short term.

May Pushes To Finalise Brexit Details

Today Theresa May will host her senior Cabinet ministers in an effort to hammer out details of the Brexit deal. May is aiming to have a deal ready for the end of this month, but that will require agreement from all sides on the Irish border. UK businesses are trying to prepare for potential disruption to business continuity with supply chain issues taking centre stage. Clarity is being sought by UK businesses who could face a much shorter transitional period than previously expected if details of the final Brexit deal are not known until well into 2019. Details have emerged from Brussels in recent days showing two viable options for trade. The UK commits to stay in the customs union with the EU requiring mutual agreement to break the union; or the UK joins a temporary customs union with the ability to exit the arrangement unilaterally but with the cost of allowing Northern Ireland to remain in the customs territory, an offer May has previously rebuffed. Today's meeting will be watched closely to see if there is any progress made on the border issues as the EU has indicated it will not call a meeting until it is sure it won't be another futile summit.

William Hill fall on trading update

William Hill has fallen by 8% this morning following its 17 week trading update (to the 23rd of October). In the release management guided that it now expects full year operating profit to range between £225m and £245m. This was not well received with the midpoint (£235) of this range considerably below market estimates (£255). The release explained that adverse regulatory and tax changes (including enhanced customer due diligence processes and an increase in Remote Gaming duty to 21%) are expected to impact Online profits for both 2018 and 2019 by £20m and £25m respectively. Over the 17 week period total net revenue fell by 4%, with Online (unfavourable results) and Retail (general sector headwinds) dropping by 5% and 4% respectively. US existing operations grew by 6%. The release confirmed a recommended cash offer for Mr Green & Co AB (MRG)

Source: Bloomberg, CF Research November 2018

Key Upcoming Events

06/11/2018 US Midterm Elections
08/11/2018 FOMC Meeting
21/11/2018 EU Leaders Summit
30/11/2018 G20 Summit

Market View

US markets had a mixed day yesterday with the S&P finishing up 56bps while the NASDAQ dropped by 38bps. Asian markets also posted mixed results across the region. European markets have opened marginally down. US yields are holding at the 3.20% level post a strong US jobs day on Friday, while the yield available on a 10Y bund stands at 43bps. Markets will be keeping a close eye on the midterm elections in the US, as well as increased speculation regarding some movement on Brexit negotiations will also attract attention. On the data front, we have European PMIs out this morning.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25462	190.87	0.76%	3.00%
S&P	2738	15.25	0.56%	2.42%
Nasdaq	7329	-28.14	-0.38%	6.16%

Nikkei	22148	248.76	1.14%	-2.71%
Hang Seng	26121	186.57	0.72%	-12.69%

Brent Oil	72.78	-0.39	-0.53%	8.84%
WTI Oil	62.91	-0.19	-0.30%	4.12%
Gold	1235	3.10	0.25%	-5.24%

€/\$	1.1421	0.00	0.12%	-4.86%
€/£	0.8734	0.00	-0.15%	-1.65%
£/\$	1.3076	0.00	0.27%	-3.23%

	Yield	Change
German 10 Year	0.427	0.00
UK 10 Year	1.515	0.01
US 10 Year	3.2009	0.00

Irish 10 Year	1.013	0.00
Spain 10 Year	1.577	0.01
Italy 10 Year	3.35	0.0210

Source: Bloomberg, CF Research November 2018

Aryzta - Rights issue requires shareholder action

Closing Price - .€6.35

News

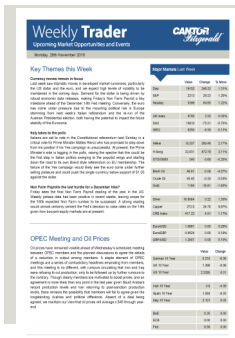
Aryzta's board narrowly received shareholder approval for its heavily discounted rights issue which will be processed over the next nine days. Shareholders, as at close of business today (06/11/2018), will receive 10 rights to subscribe for 10 new shares issued at CHF1 each (€0.88). The rights will start to trade from the 7th November and can be exercised up until the 15th November. Aryzta's capital raising will be significantly dilutive to existing shareholders, with 900m new shares being issued relative to 93m shares currently listed. Aryzta released its FY 2018 financial results in October which reported a stabilisation in operations with management expecting EBITDA to grow mid-single digits in 2019 to over €300m.

Comment

Given the significance of the rights issue, we expect existing shares to come under further pressure over the next fortnight as new shares come to the market. If we assume that a post rights Aryzta trades on 11x 2019 EBITDA (CHF4.05bn), add CHF565m in equity value for non-core assets and subtract CHF1.3bn for net debt/hybrid capital we conclude an implied fair value of equity of €3,368m. Hence for existing shareholders, we advise that you either follow your investment by exercising your rights for new shares or else sell your Aryzta shares now before they fall further. Our fair value for Aryzta using the above assumptions would imply c.€2.90 per share. At 8.5x EV/EBITDA, the fair value would fall to €1.95.

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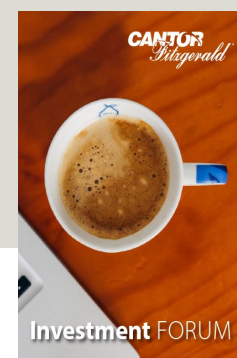
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