

Tuesday, 11th December 2018

Morning Round Up

Brexit twists and turns

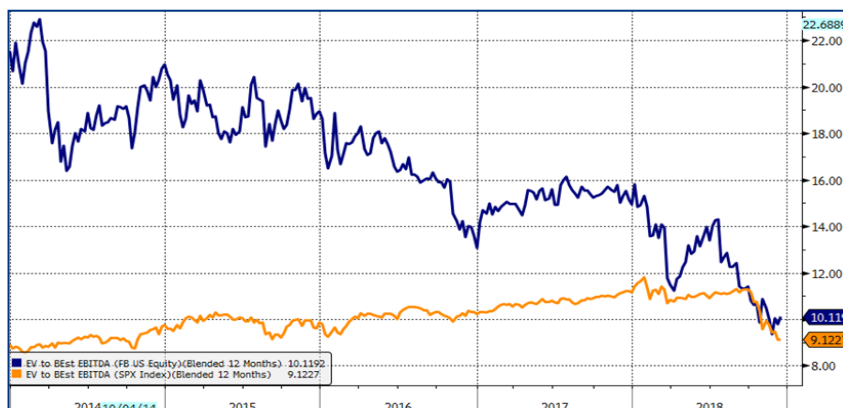
Prime Minister Theresa May has postponed the crucial vote in the House of Commons on her Brexit deal. Speaking to parliament yesterday she conceded that, as it stands the deal "would be rejected by a significant margin". The issue remains the Irish backstop solution that would keep Northern Ireland subject to the European Union's customs area to avoid the reinstatement of physical border infrastructure. The British PM has embarked on a tour of Europe in an effort to secure some concessions from European leaders, however, the EU has been steadfast thus far in its stance that this is the only deal available. Finally, Mrs May gave no guidance on when the vote would take place only saying that the 21st of January was the final deadline for a vote, leaving little prospects of any action this side of the Christmas Break.

Consensus opinion doesn't see the EU conceding on Mrs May's demands as maintaining peace in the North remains a priority for both Irish and EU politicians. This leaves the PM in a very weak position, failing to garner any meaningful change should result in a lame duck PM. From the point of view of risk assets, continued uncertainty is a significant headwind to any rally in equity prices into year end, proving especially challenging for the ISEQ. The pound has also weakened against both the Euro and the dollar, one euro is currently trading at £0.9018. Brexit will continue to drive volatility as investors position themselves to protect portfolios from downside tail risks.

Facebook breaking out of a downward trend

Facebook bounced 3.2% yesterday after the market turned more optimistic on its outlook after the board expanded its repurchase authorization by an additional \$9bn. Importantly it now appears to have found a bottom when it hit \$131 two weeks ago. It also looks to have broken out of its downward trend channel when it closed at \$141.85 yesterday evening. Facebook has suffered recently from data regulation headwinds (hence our preference for Microsoft and Paypal), stalling user growth figures and its capex spend next year. However, it is now trading at a heavily discounted valuation with a 12m forward EV to EBITDA of 10.1x. This is a 40% discount to its 5 year average and only an 11% premium to the S&P 500 (historically traded at a 64% premium). This cheaper valuation is despite its forecasted revenue compound annual growth rate of 27% for the next three years. Bottom line earnings will be relatively flat next year as it rolls out an extensive capex spend (\$18bn - \$20bn) to monetize the news feed, messaging/video and Instagram. However, it has historically proven its ability to monetize its assets appropriately. We remain positive on it from a 12m perspective given its cheap valuation. With it now finding a bottom and breaking out from its downward trend channel, the risk/reward is attractive from a shorter perspective as well.

S&P 500 and Facebook Historical Valuation Levels



Source: Bloomberg, CF Research December 2018

Key Upcoming Events

13/12/2018 ECB Meeting
13/12/2018 EU Summit

Market View

US markets rallied to finish the day positive yesterday, after a weak day across Europe as Mrs May postponed the Commons vote on her Brexit deal. Asian markets were mixed with Chinese stocks advancing on communication between Chinese Vice Premier Liu He and Treasury Secretary Steven Mnuchin. European markets opened positive this morning, rallying from yesterdays lows, while US futures are indicating a negative open this morning. The euro is stronger against the pound this morning trading at £0.9018. Markets will be following Mrs May as she turns to Europe for concessions. On the data front, the UK has employment data out today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24423	34.31	0.14%	-1.20%
S&P	2638	4.64	0.18%	-1.34%
Nasdaq	7021	51.27	0.74%	1.70%
Nikkei	21148	-71.48	-0.34%	-7.10%
Hang Seng	25772	19.29	0.07%	-13.86%
Brent Oil	59.94	-0.03	-0.05%	-10.36%
WTI Oil	51	0.00	0.00%	-15.59%
Gold	1249	4.22	0.34%	-4.15%
€/\$	1.1381	0.0025	0.22%	-5.20%
€/£	0.9014	-0.0027	-0.30%	1.49%
£/\$	1.2626	0.0065	0.52%	-6.56%

	Yield	Change
German 10 Year	0.271	0.025
UK 10 Year	1.238	0.039
US 10 Year	2.874	0.016
Irish 10 Year	0.96	0.047
Spain 10 Year	1.46	0.018
Italy 10 Year	3.132	0.026

Source: Bloomberg, CF Research December 2018

Total Produce - Looks attractive at current levels

Closing Price: €1.36

News

Total Produce markets and distributes a wide range of fresh produce across Europe and North America. The consumer staple company has c.5% market share globally in fresh fruit wholesaling. Earlier this year, Total Produce acquired 45% of Dole, the most recognised brand in North America, for \$300m with an option in place to acquire the balance over the next 5 years.

Total Produce has grown revenue from €2.3bn in 2010 to €3.7bn in 2017 driven by both organic growth, modest price increases and good bolt on acquisitions. Acquisitions include a majority stake in Oppenheimer, The Fresh Connection, Gambles, Progressive Produce and eco-farms among others.

As a recap, Total Produce interim 2018 results reported 2% revenue growth to €2.2bn and 7.4% adj EBITDA growth to €56.7m. FY 2017 earnings per share was reported at 13.5c. Although profit margins are narrow (c.2.5%), many contracts are protected from higher fruit input costs.

On a fully consolidated basis, Total Produce generates 40% of revenue from Europe – Eurozone, 36% of revenue from Europe – non-Eurozone and 24% of revenue from International geographies.

The acquisition of a 45% stake in Dole for \$300m gives Total Produce exposure to the biggest fruit brand globally, an additional \$4.4bn of revenue and \$238m EBITDA (versus group 2017 EBITDA of €82m) and significant upstream assets which will help deliver margin expansion. The acquisition was well received by investors at the time with the rights issue significantly oversubscribed. Total Produce has the option to acquire the balance of Dole over the next five years.

Comment

Total Produce has traded down by 46% year to date to trade at 9x 2019 earnings, the cheapest multiple in many years. Management recently revised down earnings modestly due to weakness in product prices. An E-Coli issue in the US is impacting Dole vegetable sales (<25% of Dole & < 5% of Total Produce) and an ongoing FDA investigation is weighing on sentiment. We do not see the E-Coli issue impacting profits in 2019.

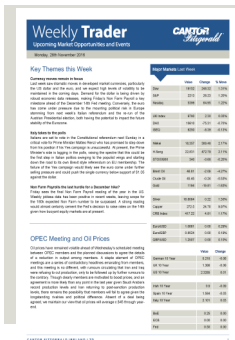
Total Produce peers Greenyard and Del Monte have also reported significant profit headwinds resulting in significant declines in their earnings. Total Produce has been unjustifiably tarred with the same brush given that expectations are that the company will report a fall in earnings related to the rights issue to fund the acquisition of Dole. On a like for like basis, earnings per share would be trending up.

We believe that the current weakness presents a good opportunity to acquire Total Produce at a very cheap multiple relative to a very strong growth outlook visible via its acquisitions. Management are delivering decent returns to investors and continue to increase its dividend at or above earnings growth. The acquisition of Dole was done at a very attractive price and we think adds 60c of value to Total Produce shares.

The recent appointment of Imelda Hurley (ex-origin CFO) is a boost to the executive board. Group Chairman, Carl McCann, has shown his family commitment to the Dole transaction by coughing up €25m to buy shares in the recent rights issue at €2.30 a share. We would use the weakness to “Buy” what could be considered the best fruit brand in the world now post the acquisition of Dole.

Darren McKinley, CFA | Senior Equity Analyst

Cantor Publications & Resources



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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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Investment Forum

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Total Produce: Total Produce markets and distributes a wide range of branded fresh produce to pan European and National retailers and wholesaler.

Facebook: Facebook Inc. operates a social networking site.

Historical Recommendation:

Total Produce: We have an Outperform rating on Total Produce since the 29/11/2018

Facebook: We have been positive on the outlook for Facebook, and it was added to the core portfolio on the 11/05/2015 and no changes to our recommendation have been since.

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Dublin: 75 St. Stephen's Green, Dublin 2. Tel: +353 1 633 3633.

email : ireland@cantor.com web : www.cantorfitzgerald.ie



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