Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 14th December 2018

Morning Round Up

Depending on growth
The Italian government has offered to lower its budget deficit target for 2019 to 2.04% of GDP from a previous goal of 2.4%. The latter target violated European fiscal rules, which require Italy to cut its deficit, after adjusting for economic swings, and to gradually lower its debt. Spooked by hostile markets, Rome's anti-austerity government is offering to trim its 2019 budget deficit goal by 0.4 percentage points. The U-turn may help Italy escape damaging European Union fines. Investors will be pleased, but the government may just be saving its battle for another day. When in October, Brussels rejected Italy's bloated Budget plans, Deputy Prime Minister Matteo Salvini said the executive "would not to back down by a millimetre". That pledge was forgotten on Wednesday when Prime Minister Giuseppe Conte promised European Commission President Jean-Claude Juncker to lower the deficit target to just over 2.0% of national output, a climbdown equivalent to €6bn of savings. The retreat is a sign of the EU-sceptic coalition government's need to regain investor confidence. Concerns that public debt – now at 131% of GDP – would continue to climb and the EU row have triggered massive outflows from Italian stocks and bonds and pushed government debt yields to multi-year peaks. Local entrepreneurs' anger and the €5bn of extra interest on public debt next year alone may have worn out Italy's radical leaders. Italy's concessions are now within sight of EU demands. Brussels wants Italy to cut its structural deficit by 0.6% of GDP, equivalent to a 1.7% headline deficit number. But it was probably willing to with a 1.9% number to allow for some emergency spending. With the gap now roughly 0.1% of GDP, the clash seems defused, particularly after French President Emmanuel Macron promised €10bn of welfare spending to quell riots at home. However, the peace may not last. For one, Italy's move could just be a delaying tactic. The Juncker Commission will be gone after May European parliament elections, which may see a rise of anti-EU parties. And, despite the lower deficit, the Italian government doesn't appear to have fundamentally changed its fiscal approach. Some of the savings may simply come from delaying the start date of a flagship citizen's income plan, and an early retirement scheme, together worth about €16bn. But the growth-boosting potential of such measures is questionable. If Italian economic growth fails to pick up, tension with Brussels and markets will inevitably resurface.

Kerry Group makes two acquisitions
Kerry Group have reached an agreement to acquire Ariake USA (North American business of Ariake Japan Co) and Southeastern Mills North America for a combined €325m. Both purchases are under the Taste and Nutrition (T&N) brand. Ariake USA produces natural clean label savoury taste solutions derived from poultry, pork and vegetables. Southeastern Mills manufactures coatings and seasoning. With combined revenues of €125m, the purchases have been valued at 2.6x sales. Roughly in line with Kerry's valuation. The acquisitions will be financed from existing lines of credit, with net debt to ebitda set to remain below 2x. Both of these purchases look to be solid additions to the T&N brand and the price paid does not appear excessive. We continue to like Kerry as a longer term holding given its secular trends, superior growth, Asia/EM penetration, quality structure and cost inflation pass through. While we note that at a 12m forward P/E of 23x, it is trading at 20% premium to the broader European food market. However it is cheaper than its ingredients peers (Chr Hansen, Symrise and Givaudan). We see c.10% upside in the short term however it is unlikely to push past the €97 level over the next two months. A broader sector derating is the risk to our investment case with Brexit uncertainty more of a risk to the Consumer Foods (20% of revenues) business.

Source: Bloomberg, CF Research December 2018

Key Upcoming Events

14/12/2018 EU Leaders Summit
19/12/2018 FOMC Interest Rate Decision

Market View

US markets finished flat to marginally down yesterday. Asian markets weakened overnight on Chinese data that missed expectations. Japan, Hong Kong and Shanghai were all down 1.5%. Weak sentiment continued into European trading this morning with most markets opening down. US futures also point to weaker day. Yields remain tighter with the US and German 10 years at 2.86% and 25bps. After the ECB yesterday, markets will turn there attentions to the Fed meeting expecting a more dovish outlook. On the data front, Europe has a range of PMIs out this morning and the US has retail sales data and industrial production numbers.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24597	70.11	0.29%	-0.49%
S&P	2651	-0.53	-0.02%	-0.86%
Nasdaq	7070	-27.98	-0.39%	2.42%
Nikkei	21375	-441.36	-2.02%	-6.11%
Hang Seng	26095	-429.56	-1.62%	-12.78%
Brent Oil	60.84	-0.61	-0.99%	-9.02%
WTI Oil	52.3	-0.28	-0.53%	-13.44%
Gold	1239	-3.07	-0.25%	-4.90%
€/$	1.1299	-0.0062	-0.55%	-5.88%
€/£	0.8976	0.0002	0.02%	1.07%
£/$	1.2589	-0.0054	-0.43%	-6.84%

	Yield	Change
German 10 Year	0.249	-0.036
UK 10 Year	1.254	-0.035
US 10 Year	2.870	-0.043
Irish 10 Year	0.933	-0.032
Spain 10 Year	1.41	-0.011
Italy 10 Year	2.946	-0.010

Source: Bloomberg, CF Research December 2018

IFG Group - Trading and strategic update

Closing Price: €1.59

News

IFG's new management team updated the market on year to date performance and outlined the strategic direction for the company following a comprehensive review of the Group's businesses. At Group level, management have advised that it remains on target to deliver £1mln in cost savings, which should be visible in H219. In relation to legacy issues, there is no update on the Elysian Fuels issue with HMRC, while current cash levels are expected to be sufficient to cover a worst case scenario while management expect a resolution to be materially lower than its worst case scenario. We are expecting further disclosures relating to the dual SIPP/SASS book in the full year report. Management believe that all material risks areas have now been reviewed, which should provide a clean bill of health once known legacy issues are settled.

Looking at the underlying businesses, James Hay's new client wins is down, 22%, on the same period coming in at c. 4,000. Assets under Administration (AuA) were £26bn, up 2% on October 2017 and flat to marginally lower than June 2018. Cash balances benefited from the Bank of England rate increase in August, to H2 interest of £6.5mln despite lower cash balances. Management are targeting 7% annual revenue growth over the next 3 years with its operating margin improving from c. 19% to c. 25%.

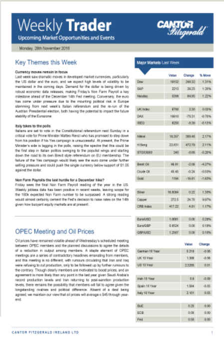
In Saunderson House, new clients wins year to date was 208, with Assets under Advice (AuA) flat on the year, at £5bn, as net inflows were offset by negative market moves. The Discretionary Managed Service (DMS) is performing well attracting a younger client base. Management are targeting growing the DMS offering to 20% of AuA by 2021 as they target younger high net worth clients outside its typical client base of London based solicitors and accountants. Management are hoping to deliver 9% revenue growth annually through to 2021 with an improving operating margin.

Comment

Management have delivered an encouraging update with potential to deliver c. 8% revenue growth and improving margin over the next three years. The question for investors is all the bad news priced in and can management deliver the growth guided. At 14x FY18, IFG remains an expensive company relative to the financial sector despite trading at the lowest multiple over the past 5 years. The investment case rests on management delivering growth as outlined and improving margins in James Hay. Questions relating to legacy issues will continue to hang over the business until there is certainty on the costs despite the balance sheet being well provisioned for a worst case scenario. We currently have IFG under review.

Pierce Byrne, CFA | Investment Analyst

Cantor Publications & Resources



Weekly Trader

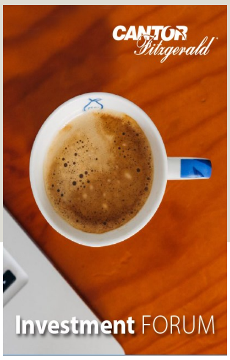
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy,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

[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)

IFG Group: IFG is a focused financial services company. The Company offers full platform services, pension administration and independent financial advice.

Kerry Group: Kerry is a major international food corporation. The Group develops, manufactures, and delivers innovative taste solutions and nutritional and functional ingredients.

Historical Recommendation:

IFG Group: IFG is currently under review.

Kerry Group: We have an "Outperform" rating on Kerry as of 16/11/2016.

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