

Weekly Trader

Upcoming Market Opportunities and Events

CANTOR
Fitzgerald

Monday, 03rd December 2018

Key Themes This Week

The Week Ahead

Another busy week ahead as we look forward following Saturdays trade deal, Fed policy, Opec's meeting, Brexit and Italy.

Risk assets have opened up strongly this morning following the meeting between President Trump and President Xi on Saturday evening. The two parties met post the G20 summit in Buenos Aires, agreeing that neither side would impose higher tariffs on imports for 90 days. This should at the very least push the scheduled increase from 10% to 25% on \$200bn worth of Chinese imports to the US back for a further two months. Importantly for the US auto sector, China has agreed to "reduce and remove" tariffs below the 40% level that Beijing is currently charging on US-made vehicles. In exchange for not increasing the duties to 25%, China has also agreed to purchase more agricultural products from US farmers immediately. The two sides have also agreed to begin discussions on how to resolve issues of concern, including intellectual property protection, non-tariff trade barriers and cyber theft. However Trump has confirmed that should no agreement be reached over the next 90 days, the planned increase to 25% would come into effect. While we appear to be some way off a full resolution between the two parties both the markets and business alike have welcomed the deal.

As we highlighted [last Friday](#), on the back of a favourable outcome (such as this agreement) we advise a shorter positioning toward risk assets including cyclical/growth equities, emerging markets, commodities and corporate bonds. Within equities we expect Information Technology (**Amazon, Alphabet, Microsoft**), Industrials (**Caterpillar, Siemens, DCC**), Energy (**Royal Dutch Shell, Tullow, Rio Tinto**), Consumer Discretionary (**Autos, Adidas, Inditex**) and Materials (**CRH, Smurfit Kappa**) to perform well in the short term. In this weeks trader we have included 5 names that should benefit from the news.

On Thursday, the day before November's employment data, Fed Chair Jerome Powell will testify to the congressional Joint Economic Committee. The market will be looking for further clarity from Powell, who boosted sentiment last week when he confirmed that we were closing in on the on the risk neutral rate, signalling an end to the three year hiking cycle. Friday employment data will be keenly watched, particularly the wage inflation number.

Thursday will also see OPEC meet to discuss production levels for 2019, with expectations mounting that a production cut is on the way. Oil has already pushed forward this morning following the trade deal and the news that Saudi Arabia and Russia have extended their pact to manage the market. Separately Canada have ordered output cuts further supporting prices. Should OPEC and it's allies (namely Russia) agree to cut production by more than 1m barrels a day on Thursday, expect prices to gain further. WTI has moved up 4.5% already this morning.

Closer to home Theresa May will continue to campaign to push through her proposed exit deal. At present the odds look to be stacked against the British Prime Minister getting parliaments nod on December 11th. Tomorrow the European Court of Justice's (ECJ) advocate-general will give his opinion on whether Britain can revoke its notice to withdraw from the EU without agreement of the other 27 states, meaning should a second referendum reverse the 2016 decision, the UK will remain in the EU without anything needed from the 27 member states.

Finally it has been reported that Italy's Prime Minister Giuseppe Conte will meet deputies Matteo Salvini and Luigi Di Maio to discuss the 2019 budget on Monday, with a reduction in the 2.4% proposed deficit looking more and more likely. Should a positive result come about expect European equities (banks particularly) and the Euro to strengthen.

Major Markets Last Week

	Value	Change	% Move
Dow	25538	1252.51	5.16%
S&P	2760	127.61	4.85%
Nasdaq	7331	391.55	5.64%

UK Index	7133	96.55	1.37%
DAX	11558	202.84	1.79%
ISEQ	5891	-35.45	-0.60%

Nikkei	22575	762.76	3.50%
H.Seng	27182	805.86	3.06%
STOXX600	365	6.52	1.82%

Brent Oil	62.37	1.89	3.13%
Crude Oil	53.42	1.79	3.47%
Gold	1231	8.77	0.72%

Silver	14.405	0.18	1.25%
Copper	284.55	7.25	2.61%
CRB Index	416.18	0.91	0.22%

Euro/USD	1.1362	0.00	0.30%
Euro/GBP	0.8878	0.00	0.41%
GBP/USD	1.2798	0.00	-0.23%

	Value	Change
German 10 Year	0.325	-0.04
UK 10 Year	1.365	-0.05
US 10 Year	3.0369	-0.02

Irish 10 Year	0.926	-0.07
Spain 10 Year	1.497	-0.07
Italy 10 Year	3.148	-0.12

BoE	0.75	0.00
ECB	0.00	0.00
Fed	2.25	0.00

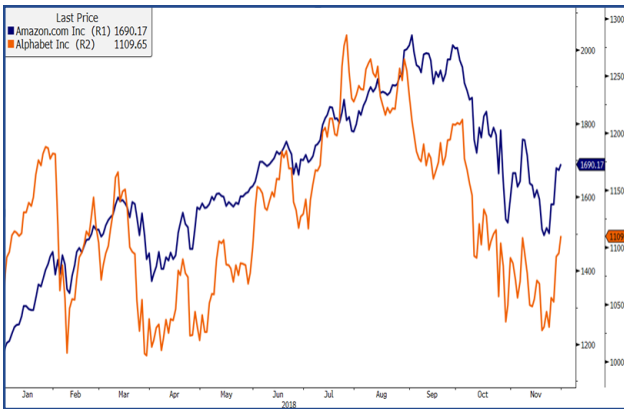
All data sourced from Bloomberg

Opportunities this week

CFI Research Team

Tech

Closing Price: \$1,690.17



- US trade has weighed heavily on markets with cyclical growth names taking the brunt of the damage
 - The trade dispute has significantly dampened growth expectations for FY19 calling into question the investment case and valuation levels for the US Technology sector.
 - Positive momentum on trade issues should drive support for cyclical growth stocks as investor expectations on the current business cycle extend.
 - We expect US tech to regain leadership of the S&P as the outlook for trade improves.

Alphabet

- Fears relating to Alphabet's revenue growth in its Search and YouTube businesses has seen the stock fall 14% from year to date highs, however, the stock is up 4% for the year.
- Currently trading on its 100 week moving average, which should offer support.
- Underlying business stands to benefit from easier access and better protections in China

Amazon

- Similarly, fears relating to growth outlook and Q4 missed expectations on Q4 guidance has seen the stock fall 17% from year to date highs. Amazon remains 44% ahead of year end pricing.
- Fundamentally, progress on trade relations should feed through to a stronger consumer supporting revenue growth. Lower oil prices should generate an additional positive impact on top line growth.

Key Metrics	2018e	2019e	2020e
Revenue (\$'Mn)	232521	280248	333983
EPS (\$)	27.23	35.58	48.09
Price/ Earnings	62.07x	47.5x	35.14x
Div Yield	0.00%	0.00%	0.00%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
AMZN US	9.83%	-15.41%	44.52%

Source: All data & charts from Bloomberg & CFI

Caterpillar

Closing Price: \$135.67



- Caterpillar shares have traded down by 17% year to date and 25% from its peak on concerns that a global trade/tariff war could break out and negatively impact global growth. Further to this, concerns had been building that monetary tightening in the US would derail the US housing market.
- Caterpillar is exposed to the construction sector (40% of sales), energy, utilities and transportation sector (40% of sales) and the resource sector (20% of sales). Caterpillar reported that each division delivered c.20%+ sales growth in Q3 2018. Provided that there is no significant global slowdown in 2019, expectations are for further sales growth driven by US/China infrastructure spend and European private sector spend.
- Caterpillar reported record earnings in 9M 2018 and is on course to report c.65% growth in earnings per share for the full year. Expectations are for 10% earnings growth in 2019. Last week, peer company John Deere guided for 20% earnings growth in 2019 led by construction equipment sales.
- With tariffs expected to increase the company's cost of good sold. An agreement between US/China would be a catalyst for an improvement in performance.
- Caterpillar has a strong balance sheet (€8bn in cash on balance sheet and 2.5x net debt/EBITDA) and has been using free cash flow to buyback stock (€2bn YTD) and pay a 2.5% dividend (29% pay-out ratio). With free cash flow to ramp up again in 2019, we could see CAT returning more capital to shareholders and paying down more debt. Q3 results beat expectations driven by both strong volumes and favourable pricing. CAT trades on 11.2x trailing earnings versus a historical average of 15x.

Key Metrics	2018e	2019e	2020e
Revenue (\$'Mn)	54734.9	58556.9	60933.4
EPS (\$)	11.64	12.88	14.05
Price/ Earnings	11.65x	10.53x	9.65x
Div Yield	2.41%	2.59%	2.68%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
CAT US	19.03%	-4.36%	-13.9%

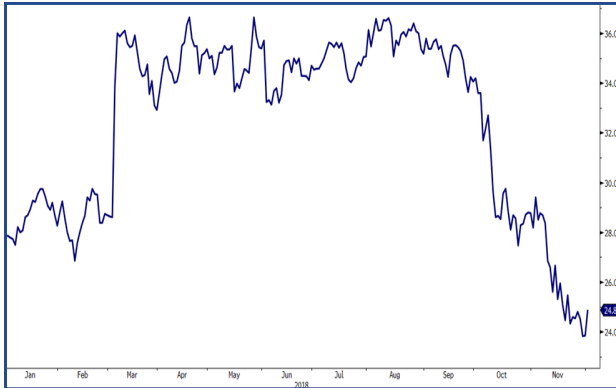
Source: All data & charts from Bloomberg & CFI

Opportunities this week

CFI Research Team

Smurfit Kappa

Closing Price: €23.84



Key Metrics	2018e	2019e	2020e
Revenue (€'Mn)	9124.7	9539.1	9826.4
EPS (€)	2.81	2.86	2.96
Price/ Earnings	8.83x	8.67x	8.39x
Div Yield	3.80%	3.99%	4.19%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
SKG ID	-16.99%	-33.78%	-15.43%

Source: All data & charts from Bloomberg & CFI

- Latest corrugated packaging data from the US showing weakening demand and mounting capacity.
 - Trade uncertainty is feeding into weaker consumer demand
 - Positive developments on US-Sino trade, continued wage growth and weaker oil should support the positive trend in consumer spending
 - Record Black Friday sales a strong start to the holiday season spend
 - Shift to online consumer consumption should be broadly supportive
- Margins continue to expand, however, pace of expansion has moderated
- Smurfit's recent Q3 results reinforce investment case based on growth opportunities
 - 7% underlying revenue growth
 - 27% increase in EBITDA and EBITDA margin expansion to 16.9%
 - Guidance for FY18 to be "materially" better than FY17
- Management investing in growth, with the recent acquisition of a packaging operation in Serbia
- Management have a track record in deploying capital driving increased return on capital employed (ROCE)
- Technically oversold with an RSI at 27.5 and should find support at €23.80, which its held on a number of occasions since
- Current consensus Price Target €35.53 representing c. 47% upside.

Cairn Homes

Closing Price: €1.31



Key Metrics	2018e	2019e	2020e
Revenue (€'Mn)	357.8	492.8	542.7
EPS (€)	0.05	0.09	0.11
Price/ Earnings	25.76x	14.31x	11.39x
Div Yield	0.00%	3.11%	5.51%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
CRN ID	-7.31%	-19.14%	-30.26%

Source: All data & charts from Bloomberg & CFI

- Dublin residential market undersupplied by c.15,000 units per annum. Significant pent up demand
- Irish mortgage lending (BIRG) up 30% YoY in H1 2018. First time buyer grant retained in 2019 budget. Central Banks rules on loan to income ratios should reduce the risk of a future price shock.
- New homes continue to see house price inflation of 4-6% per annum which is supportive of a sustainable business in home building
- Cairn Homes is Irelands largest home builder having secured a very attractive land bank biased toward affordable homes (Lucan, Adamstown, Clonee) along Dublin train lines and premium homes in good city locations (Drumcondra, Rathfarnham, Donnybrook).
- Management expect sales to ramp up from 800 units this year to 1,400 units by 2020 will be a key driver of revenue, earnings and cash flow growth.
- Management expect to generate €350m of free cash flow over the next three years which could be used to pay a dividend and buy back stock .
- Cairn Homes shares have corrected by 33% year to date to trade on 10x 2020 earnings and 0.7x adjusted book value

Cantor Core Portfolio - In Detail



Cantor Core Portfolio

Date: 30/11/2018

Performance YTD	%
Portfolio	-2.1%
Benchmark	1.6%
Relative Performance	-3.7%
P/E Ratio	17.8x
Dividend Yield	2.7%
ESMA Rating	6
Beta	1.02

Sectors Weights	Portfolio	Benchmark	+ / -
Consumer Discretionary	11%	12%	
Consumer Staples	5%	10%	
Energy	5%	7%	
Financials	19%	18%	
Health Care	10%	13%	
Industrials	22%	12%	
Information Technology	16%	14%	
Telecommunication Services	0%	3%	
Utilities	0%	3%	
Materials	12%	6%	
Real Estate	0%	2%	

FX	Portfolio	Benchmark
EUR	58%	44%
GBP	21%	16%
USD	21%	40%

Currency YTD %		
GBP	0.11%	
USD	5.63%	

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	YTD Return (EUR)	Weekly Return	Currency Contribution	Total Contribution
STOXX Europe 600	EUR	16	Neutral	60%	-5.1%	-0.7%	0.0%	-3.1%
S&P 500	USD	19	Neutral	40%	11.7%	0.9%	2.6%	4.7%
Total				100%		0.2%	1.05%	1.6%

Core Portfolio

Weighted Average Contribution

Stock	Currency	Yield*	Hold /Sold	Sector	Weighting	Total Return Local	Weekly Return	Currency Contribution	Total Contribution
Glanbia Plc	EUR	1.6	H	Consumer Staples	5%	8%	0.0%	0.0%	0.4%
Ryanair Holdings Plc	EUR	0.0	H	Consumer Discretionary	5%	-23%	-0.3%	0.0%	-1.1%
Industria De Diseno Textil	EUR	3.3	H	Consumer Discretionary	6%	-4%	0.3%	0.0%	-0.2%
Lloyds Banking Group Plc	GBP	5.8	H	Financials	5%	-15%	-0.3%	0.2%	-0.7%
Bank Of Ireland	EUR	2.8	H	Financials	5%	-20%	-0.6%	0.0%	-1.0%
Allianz Se	EUR	4.9	H	Financials	5%	1%	-0.1%	0.0%	0.1%
Facebook Inc*	USD	0.0	H	Information Technology	2%	-15%	0.0%	2.3%	-0.4%
Paypal Holdings Inc*	USD	0.0	H	Information Technology	4%	-2%	0.1%	2.6%	0.9%
Alphabet Inc*	USD	0.0	H	Information Technology	3%	-8%	0.1%	2.4%	0.6%
Amazon.Com Inc*	USD	0.0	H	Information Technology	4%	-16%	0.2%	2.2%	2.6%
iShares STOXX Europe 600 Banks ETF	EUR	3.5	S	Financials	5%	-12%	0.0%	0.0%	-0.6%
Siemens Ag	EUR	3.8	H	Industrials	6%	-9%	0.1%	0.0%	-0.5%
Vinci Sa	EUR	3.5	H	Industrials	5%	-7%	-0.1%	0.0%	-0.3%
Smurfit Kappa Group Plc	EUR	3.4	H	Materials	6%	-13%	-0.6%	0.0%	-0.8%
Allied Irish Banks Plc	EUR	2.5	H	Financials	4%	-28%	0.0%	0.0%	-1.1%
CRH Plc	EUR	3.0	H	Materials	6%	-16%	-0.3%	0.0%	-1.0%
Kingspan Group Plc	EUR	1.1	H	Industrials	5%	6%	-0.8%	0.0%	0.3%
Royal Dutch Shell Plc	GBP	5.9	H	Energy	5%	1%	0.0%	0.2%	0.1%
DCC Plc	GBP	2.1	H	Industrials	6%	-19%	-0.2%	0.2%	-1.2%
Microsoft Corp	USD	1.8	H	Information Technology	4%	-3%	0.2%	2.6%	0.0%
UnitedHealth Group Inc	USD	1.3	H	Health Care	5%	6%	0.3%	2.8%	0.4%
Glaxosmithkline Plc	GBP	5.2	H	Health Care	5%	29%	0.2%	0.3%	1.5%
Total					100%		-1.9%	0.57%	-2.1%

*Red Denotes a Sell

*Green Denotes Additions

*Stock has been reweighted

Yields are based on the mean of analyst forecast

All data taken from Bloomberg up until 30/11/2018.

Warning : Past performance is not a reliable guide to future performance

Warning : The value of your investment may go down as well as up.

*Red Denotes Deletions

*Green Denotes Additions

*Yields are based on the mean of analyst forecast

From the News - Monday's Headlines

- **Global** Trump and Xi face hurdles after fragile trade truce
- **US** US, Canada and Mexico sign deal to replace Nafta
- **Europe** Italy's entrepreneurs resist populist government
- **UK** May heads into week of turmoil over Brexit
- **Ireland** Bank of America completes Brexit switch with 100 staff moving to Dublin

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	Corporate	Corporate	Corporate	Corporate
n/a	IG Group, Hewlett Packard Greencore	CostCo	Kroger Co, Broadcom	n/a
Economic	Economic	Economic	Economic	Economic
CN Caixin PMI, EA PMI, US PMI & ISM	EA PPI, US Economic Optimism	EA Retail Sales, US ADP Employment Change	US & CA Balance of Trade	CN Balance of Trade, EA GDP 3rd Est.

Upcoming Events

10/12/2018 Air France

11/12/2018 Lufthansa,

12/12/2018 Aeroports de Paris

13/12/2018 Ocado, Bunzl

14/12/2018 N/A

10/12/2018 UK GDP, DE Trade

11/12/2018 UK Employment, EA Sentiment, US PPI

12/12/2018 EA Industrial Production, US Inflation,

13/12/2018 DE & FR Inflation,

14/12/2018 CN Industrial Production, EA PMI, US Retail Sales, US Industrial Production

All data sourced from Bloomberg

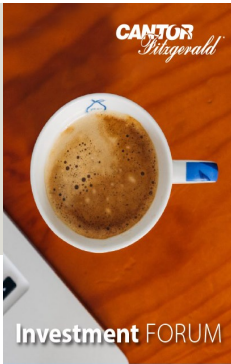
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Bank of Ireland: Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom
AIB: Allied Irish Banks plc (AIB) attracts deposits and offers commercial banking services.

Inditex: Industria de Diseno Textil, S.A. designs, manufactures and distributes apparel. The company operates retail chains in Europe, the Americas, Asia and Africa.

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

Siemens: Siemens AG is an engineering and manufacturing company. The Company focuses on four major business sectors including infrastructure and cities, healthcare, industry and energy.

Lloyds: Lloyds offers a range of banking and financial services including retail banking, mortgages, pensions, asset management, insurance services, corporate banking and treasury services.

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

Facebook: Facebook Inc. operates a social networking site.

PayPal: PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants.

Alphabet: Alphabet provides web based search, advertisement, maps, software applications, mobile operating systems, consumer content and other software services.

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

Amazon: Amazon is an online retailer that offers a wide range of products.

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

CRH: CRH is a global building materials group.

Kingspan: Kingspan is a global market player in high performance insulation and building envelope technologies.

DCC: DCC is a sales, marketing, distribution and business support services company.

GlaxoSmithKline: GSK is a research based pharmaceutical company.

Glanbia: Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

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

VINCI SA: VINCI is a global player in concessions and construction with expertise in building, civil, hydraulic, and electrical engineering

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

Caterpillar Inc.: Caterpillar designs, manufactures, and markets construction, mining, and forestry machinery.

None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.

Amazon: We have an Outperform recommendation for Amazon since 26/07/13, and no changes have been made since then.

Alphabet: Google which is now Alphabet was added to the Core Portfolio on 07/01/13 and no changes have been made to the recommendation since its inclusion.

Smurfit Kappa: We have added Smurfit Kappa to our core portfolio on the 01/01/2016 and we have upgraded our recommendation from Market Perform to Outperform

Cairn Homes PLC: We initiated an Outperform rating on the 30/11/2018

Caterpillar Inc.: We do not currently have a rating on Caterpillar.



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