Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Thursday, 10th January 2019

Morning Round Up

US shutdown is bad omen for bigger fiscal battle
The US government shutdown is a bad omen for a bigger fiscal battle ahead. The economic impact of the partial federal closure sparked by President Donald Trump's insistence on securing funding for a wall along the Mexico border will probably be minimal. The real danger comes if the dispute infects discussions about the US debt ceiling. The near 3-week shutdown has become highly toxic. Trump and Democratic leaders publicly sparred at a White House meeting. And the President says he's willing to keep doors and coffers closed for months or years. The deadlock affects the 25% of government operating expenses that Congress has not yet funded. Some 800,000 federal employees have been put on furlough or are working without pay. That will be painful, though they should receive wages owed once their agencies reopen. When the entire federal government was shuttered for 16 days in 2013 it cost the economy $24bn. It shaved at least 0.6% off annualised fourth-quarter GDP growth that year, according to Standard & Poor's.

Ryanair reaches an agreement with Spanish cabin crew
On Wednesday morning unions representing Spanish cabin crew announced they would call off strikes planned for this week after reaching an agreement with the airline. While the deal still has to be ratified by the cabin crew, it represents another positive step toward ending union disputes. Should this pass, it would mean that all major countries pilots and cabin crew have signed some form of agreement, with progress toward Collective Labour Agreements (CLA's) across the board ongoing. Ryanair's stock price continues to be hampered by negative sentiment toward both the stock and the broader sector as Brexit and industry capacity growth weighs on expectations. Ryanair announces its Q3/19 results on Monday the 4th of February, this will be important as we look for guidance on fares into the summer. We maintain our positive outlook on Ryanair with current levels acting as attractive entry point.

UK Retail update
Tesco released quarterly sales results this morning reporting Q3 LfL sales growth of 70bps and that Xmas sales were up 2.2% YoY. While Tesco ROI reported a 20bp fall in sales in Q3, Booker reported 11% growth. Their organic growth outcome was better than Sainsbury and Morrisons. Tesco are positive on FY 2019 outlook having reported a record revenue day Sunday before Xmas. M&S reported a c.2% decline in LfL sales for Q3 which was better than expected but still disappointing. In other news, Halfords stock fell 25% this morning post a profit warning blaming weather conditions. Card Factory also reported dull guidance which led to a 10% decline in the company share price.

S&P 500 1 Year Price Chart

Source: Bloomberg, CF Research January 2019

Key Upcoming Events

15/01/2019 UK Parliament Vote on Brexit
23/01/2019 Bank of Japan Interest Rate Decision
24/01/2019 ECB Interest Rate Decision
30/01/2019 Fed Interest Rate Decision

Market View

US markets advanced yesterday as the new year rally continued. However, sentiment has turned in Asian trading overnight as trade negotiations haven't yielded any concrete actions, resulting in lower markets. Europe has opened lower this morning, while US futures point to a negative open this afternoon. Treasuries ticked lower with US 10 year at 2.69% and its German equivalent at 27bps. WTI retraced but remained above $50 a barrel. Market focus today will be on President Trump's domestic policy (Gov't shutdown) and trade policy (China trade talks). Closer to home Brexit should dominate the headlines as MPs debate the Brexit bill ahead of the parliamentary vote next Tuesday.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23879	91.67	0.39%	2.36%
S&P	2585	10.55	0.41%	3.12%
Nasdaq	6957	60.08	0.87%	4.85%
Nikkei	20164	-263.26	-1.29%	0.74%
Hang Seng	26521	59.11	0.22%	2.61%
Brent Oil	60.65	-0.79	-1.29%	12.73%
WTI Oil	51.7	-0.66	-1.26%	13.85%
Gold	1295	1.05	0.08%	0.95%
€/$	1.1529	-0.0014	-0.12%	0.54%
€/£	0.9043	0.0016	0.18%	0.59%
£/$	1.2749	-0.0040	-0.31%	-0.04%

	Yield	Change
German 10 Year	0.269	-0.010
UK 10 Year	1.243	-0.018
US 10 Year	2.696	-0.014
Irish 10 Year	0.884	-0.023
Spain 10 Year	1.45	-0.040
Italy 10 Year	2.898	0.019

Source: Bloomberg, CF Research January 2019

C&C Group - Stock trades up on positive update

Closing Price: €2.94

News

Post a solid interim 2019 result reported in October, within which C&C reported 4% organic growth and 20% earnings growth, C&C management released an upbeat trading statement for the four month period through December.

Operational delivery and customer service at both Matthew Clark and Bibendum are reported to have been very strong and ahead of plan. We expect MCB to start to significantly contribute from now on post an integration period.

Across the rest of the C&C Group, management comment that revenues are tracking mid-single digit ahead of last year.

Stephen Glancey, CEO, commented: “Despite the current political uncertainty the Group is increasingly well positioned going into 2019. The new management teams and colleagues at Matthew Clark and Bibendum, have delivered an exceptional operating performance over the key Christmas period. With service levels restored, we now have stable platforms with real growth potential and unparalleled market access to the U.K. on trade. In Scotland and Ireland our combination of leading brands and distribution assets is highly resilient, cash generative and delivering growth. With a strong balance sheet and normalised cash flow conversion of 60-70% of EBITDA we are poised to provide enhanced shareholder returns.”

Comment

We continue to rate C&C as an outperform offering 17% total return in 2019 from current levels. The rationale behind our bullish call is predicated on two focus points. Firstly, C&C’s core business has returned to growth driven by a combination of volume and price gains. Secondly, unlike with previous acquisitions we believe that C&C management have added significant value via acquiring Mathew Clarke Bibendum.

MCB was acquired at 3.5x EV/EBITDA which is a significant discount to C&C valuations and complements C&C existing business model. At 11x 2019 earnings and with a 5% dividend yield, we believe that investors are reluctant to place any faith in management’s value creating ability and therefore expect company shares to perform as management deliver on the MCB integration. Today’s announcement gives us confidence in the MCB integration and should hopefully boost investor sentiment, leading to a re-rating.

Darren McKinley, CFA | Senior Equity Analyst

Vestas Wind Systems - Raises free cash flow forecast

Closing Price: DKK 511.4

News

Vestas Wind Systems upgraded its free cash flow forecasts for 2018 yesterday afternoon which follows a record quarterly order intake in Q4 2018. Vestas Wind Systems has now installed over 100GW of Wind Energy, driven by recent contracts with MidAmerican Energy.

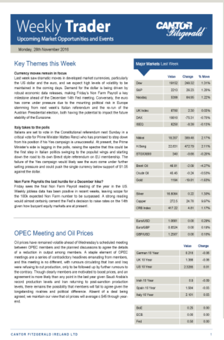
Comment

Vestas stock has rallied from DKK465 at the time of our November morning comment, to DKK545 yesterday afternoon post raising their free cash flow guidance. The stock has since retraced back to DKK505 this morning as analysts comment that the free cash flow increase is not much of a surprise and that investors will be focused on 2019 guidance come 7th February.

Post the significant outperformance and the share price rally to DKK505, we lower our recommendation to market perform.

Darren McKinley, CFA | Senior Equity 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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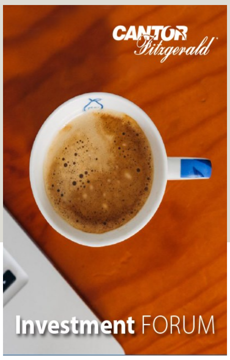

Investment Forum

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)
C&C Group: C&C Group manufactures and distributes alcoholic beverages.
Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.
Vestas Wind Systems: Vestas Wind Systems A/S develops, manufactures, and markets wind turbines that generate electricity

Historical Recommendation:
C&C Group: We have had an outperform rating on C&C since 19/11/2018
Ryanair: Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then
Vestas Wind Systems: We have an market perform rating on Vestas since 10/01/2019

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