Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

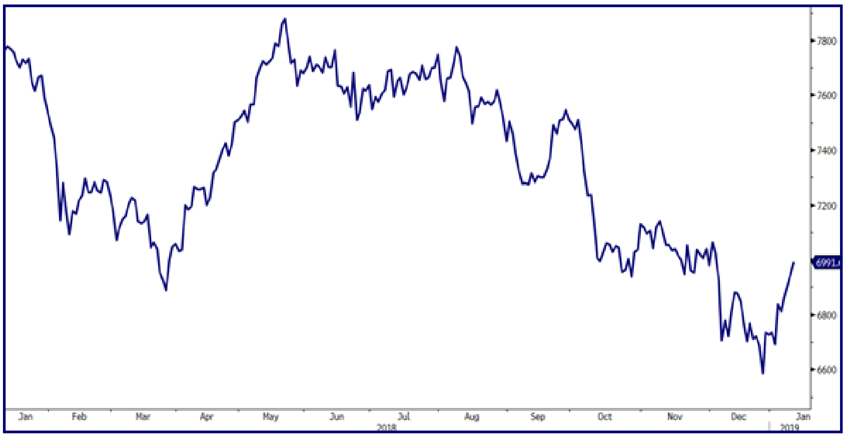
Friday, 11th January 2019

Morning Round Up

Powell again stresses patience as US economy's "narrative" unfolds
Federal Reserve Chairman Jerome Powell on Thursday stressed again that the US central bank can be patient in approving any further rate-increases as officials gauge whether the US economy will slow this year, as some in financial markets worry, or continue motoring ahead as the Fed itself expects. Powell's second appearance in less than a week generated a subdued response in financial markets, a sign he may have found his footing in how to describe central bank policy without surprising investors. Several of his recent appearances have generated large market swings in both directions. With no sign of excessive inflation or outsized risk in financial markets, Powell said the Fed would be "waiting and watching" in the coming months. "Especially with inflation low and under control, we have the ability to be patient and watch patiently and carefully as we ... figure out which of these two narratives is going to be the story of 2019," Powell said at the Economic Club of Washington. In remarks at an appearance in Little Rock, Arkansas, on Thursday, St. Louis Fed President James Bullard was blunt, saying that the central bank had reached the "end of the road" in its current rate-increase cycle. Powell and others have been less demonstrative and noted that economic data remain strong, particularly after the recent payrolls report that showed more than 300,000 jobs were added in December. The central bank's Vice Chairman, Richard Clarida, said later on Thursday that if the global slowdown and tightening of financial markets persists, the Fed would take policy steps to offset that. It would not want to wait too long to see overseas weakness affect the US economy, he added.
Powell on Thursday also reiterated that, separate from what happens with interest rates, the Fed would continue allowing its nearly $4 trillion portfolio of bonds to shrink each month, to a level "substantially smaller" than it is now. The monthly reductions, effectively running on autopilot, have been criticised by some as a steady tightening of financial conditions the Fed should reconsider

Flybe acquisition sees share price drop
A joint venture of Virgin Atlantic, Cyrus Capital and Stobart Group have agreed to acquire Flybe for £2.2m, a sizeable discount to its closing market value of £36m on Thursday. This represents a purchase price of 1p per share, against a closing price of 16.4p yesterday evening. Flybe's stock has fallen by 90% this morning as a result. However they will be adding far more capital as part of the deal by putting forward £20m of bridge loans and an £80m pound injection to support growth. Flybe will fall under Connect Airways, which is Virgin's, Stobart's and Cyrus's newly created regional airline and aircraft leading business. Flybe suffered significantly in 2018 on the back of Brexit uncertainty, currency fluctuations and rising fuel costs.

UKX Index 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 on dovish commentary from the Fed with markets adding 0.5%. Asian markets continued the rally and are set to post their best week since early November. European markets have opened positive this morning with the STOXX 50 up 0.25%. US futures are pointing to a flat open this afternoon. German 10 year yields have tightened after their fresh issue this week, it is currently trading at 24bps. Elsewhere, WTI continues to hold above $50, trading at $53 this morning. Brexit debate will again maintain markets focus, as we edge closer to the meaningful vote next week. There is also a raft of UK economic data set to be released this morning.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24002	122.80	0.51%	2.89%
S&P	2597	11.68	0.45%	3.58%
Nasdaq	6986	28.99	0.42%	5.29%
Nikkei	20360	195.90	0.97%	1.72%
Hang Seng	26667	145.84	0.55%	3.18%
Brent Oil	62.15	0.47	0.76%	15.52%
WTI Oil	53.06	0.47	0.89%	16.85%
Gold	1293	6.74	0.52%	0.85%
€/$	1.1527	0.00	0.23%	0.52%
€/£	0.9048	0.00	0.34%	0.66%
£/$	1.2739	0.00	-0.06%	-0.12%

	Yield	Change
German 10 Year	0.238	-0.02
UK 10 Year	1.25	-0.02
US 10 Year	2.7096	-0.03
Irish 10 Year	1.023	0.14
Spain 10 Year	1.438	-0.01
Italy 10 Year	2.85	-0.0390

Source: Bloomberg, CF Research January 2019

Grafton Group - FY 2018 earnings to beat expectations

Closing Price: €2.94

News

Grafton Group issued a trading update for the year just ended and in advance of its final results due on 28th February 2018. Preliminary results report revenue of £2.95bn, up 8.7% YoY (+4.3% LfL) and management expect EBITA for 2018 to be at the top end of analyst expectations (£188.5m) which would imply c.12-15% EBITA growth.

UK merchanting growth momentum in the fourth quarter was the strongest of the year at 3.4%. Ireland (+9.8%) and Belgium (+7.4%) merchanting also reported a continuation in positive momentum in Q4. Netherlands LfL revenue growth eased but remains attractive at mid-single digit.

The Retailing division, primarily Woodies DIY in Ireland, reported 5.3% YoY growth in Q4 negatively impacted by currency. On a constant currency, growth would have been 8.8%.

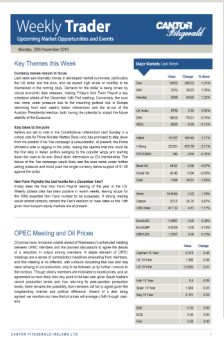
Gavin Slark, Chief Executive Officer of Grafton Group plc commented "We are pleased with the strong performance over the year, with contributions from both organic growth and the Leyland SDM acquisition. The Group continues to benefit from its exposure to multiple geographies and its diverse customer base. The Group's cash generative businesses, strong balance sheet and low level of net debt support our development strategy for the year ahead."

Comment

Grafton Group has been included in our 2019 most preferred Irish equity exposure for a number of reasons. Firstly, the house view is that sterling will appreciate over the course of the year which will provide a performance kicker. Secondly, we have been impressed by managements ability to keep Grafton outperforming the wider UK sector within a challenging market while acquiring bolt on acquisitions in international markets but focused on the same category - merchanting. Lastly, we view the 11x 2019 earnings multiple and 5.5% free cash flow yield as attractive for a company that is on course for record earnings in 2018 & 2019. We view clarity on the form of Brexit as a catalyst for improved performance and rate the stock an outperform.

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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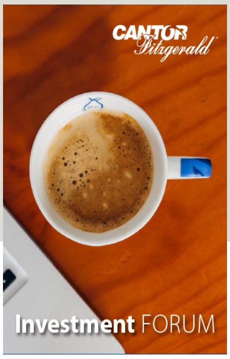

Investment Forum

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)

Grafton Group: Grafton Group PLC manufactures and retails building supplies

Historical Recommendation:

Grafton Group: We changed our rating on Grafton from Market Perform to Outperform on the 20th Feb 2018

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