

Tuesday, 15th January 2019

Morning Round Up

China signals more stimulus as economic slowdown steepens

China will aim to achieve "a good start" in the first quarter for the economy, the state planner said on Tuesday, signalling authorities could roll out more stimulus measures in the near term to counter slowing growth. China will strengthen monitoring of its economic situation and improve its "reserve" of economic policies, the National Development and Reform Commission (NDRC) said in a statement. The world's second-biggest economy slowed in 2018 as Chinese authorities carried out painful long-term structural adjustments to transition to a more gradual but sustainable growth trajectory. A trade war with the United States has also heaped uncertainty on China's near-term outlook. Exports unexpectedly fell the most in two years in December in a sign of mounting pressure on the economy. Premier Li Keqiang said China achieved its key 2018 economic targets, which were "hard-won", and seeks a strong start to the economy in the first quarter to establish conditions helpful to meeting this year's goals, according to state television on Monday. Reuters reported last week that Beijing was planning to lower its growth target to 6-6.5% this year after an expected 6.6% in 2018, the slowest pace in 28 years.

Citigroup kick off Q4 earnings

Citigroup beat consensus estimates on the bottom line but the revenues disappointed. A revenue miss (\$17.1bn versus est. \$17.6bn) and particularly poor performance from Fixed Income which posted a 21% fall in year on year revenue. The initial reaction saw the stock trade down over 2% in pre market. However, the market refocused on the positives and guidance as the analyst call drove a rally in the stock which finished up 3.95%. Loan growth of 3% (4% ex FX), strong numbers in LatAm and EMEA and cost efficiencies lead to a beat on the bottom line with EPS for the quarter at \$1.61 versus est. \$1.55. The market was encouraged with management guidance regarding revenues from Fixed Income trading citing the worst was behind the unit. Overall this release was consistent with previous quarters, disappointing on revenues but beating on earnings. US banks remain cheap having had a challenging 2018, concerns regarding growth have weighed heavily as they failed to advance revenues. These issues remain a headwind for the sector. JP Morgan (report today) and Morgan Stanley (report Thursday) remain our preferred name.

Persimmon full year results

Persimmon, the UK homebuilder, reported preliminary FY 2018 results this morning reporting that for FY 2018 unit sales increased by 3% and ASP increased by 1% resulting in 4% revenue growth. Forward sales are running 3% ahead of last year. While net cash position of £1.05bn will come in below expectations due to land bank acquisitions, FY 2018 profits are to modestly beat expectations. At 8x earnings and offering a 10%+ dividend yield with 5% payable in March, Persimmon is one of the highest yielding stocks in the UK. FY 2019 guidance to be given over the next few weeks.

US State department reverses decision on online gambling

Bookmakers in the UK were weak this morning after the US State Department reversed a prior decision and ruled all online gambling was illegal (not just sports betting). William Hill, Paddy Power Betfair and GVC all dropped c.2% on the news. With the potential for the US market remaining uncertain we maintain our Market Perform rating on PPB.

Key Upcoming Events

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

Market View

US markets finished down yesterday, with financials the only sector to finish in positive territory. Sentiment improved in Asian trading overnight after senior economic officials vowed to increase tax cuts to boost growth. European markets followed suit, opening positive. US futures point to a positive day on Wall St. Markets will look to Westminster today, as the meaningful vote is scheduled for later today. Its widely expected that Mrs May will suffer defeat with the outlook post the vote very uncertain. The euro is trading at £0.8889. Other than Brexit, earning season continues with Wells Fargo and JP Morgan reporting today. On the data front, there are PPI numbers in the US.

Market Moves

| | Value | Change | % Change | % Change YTD |
|-----------|-------|--------|----------|--------------|
| Dow Jones | 23910 | -86.11 | -0.36% | 2.50% |
| S&P | 2583 | -13.65 | -0.53% | 3.02% |
| Nasdaq | 6906 | -65.56 | -0.94% | 4.08% |

| | | | | |
|-----------|-------|--------|-------|-------|
| Nikkei | 20555 | 195.59 | 0.96% | 2.70% |
| Hang Seng | 26830 | 531.96 | 2.02% | 3.81% |

| | | | | |
|-----------|-------|-------|--------|--------|
| Brent Oil | 59.6 | 0.61 | 1.03% | 10.78% |
| WTI Oil | 50.92 | 0.41 | 0.81% | 12.13% |
| Gold | 1288 | -3.50 | -0.27% | 0.45% |

| | | | | |
|------|--------|------|--------|--------|
| €/£ | 1.1433 | 0.00 | -0.31% | -0.30% |
| €/£ | 0.8890 | 0.00 | -0.27% | -1.10% |
| £/\$ | 1.2861 | 0.00 | -0.02% | 0.84% |

| | Yield | Change |
|----------------|--------|--------|
| German 10 Year | 0.203 | -0.03 |
| UK 10 Year | 1.265 | -0.03 |
| US 10 Year | 2.6863 | -0.02 |

| | | |
|---------------|-------|---------|
| Irish 10 Year | 0.965 | -0.02 |
| Spain 10 Year | 1.386 | -0.03 |
| Italy 10 Year | 2.83 | -0.0140 |

Datalex - Significantly revises down EBITDA on timing issue

Closing Price: €2.44

News

Datalex released a surprising trading update this morning, revising down its guidance for EBITDA growth for FY18 to range between -\$4m and -\$1m. Last year it posted an EBITDA of \$14.9m, with guidance of double digit growth for 2018. This has been put down to a shortfall in services revenue caused by a failure by year end to recover costs incurred in the delivery of revenues from a significant customer deployment. Negotiations regarding the recovery of this shortfall have not concluded. The recovery of these costs will therefore not be reflected in FY18 results. The release stated that this revenue will now be reflected in FY19 and FY20. This will also mean that it has misstated adjusted EBITDA and profit at H1/18 results due to the accelerated recognition of revenue associated with this customer deployment. The Board believe that the issue is principally comprises in-year timing differences corrected by the end of the year. This issue will be independently reviewed.

Aidan Brogan, CEO of Datalex, commented on his disappointment on the issue, stating that they are taking corrective action to ensure this does not occur in the future. The release confirmed Datalex's net cash position of \$8.8m at year end.

Comment

This was very much an unexpected negative update from Datalex this morning. While it is a highly significant downward revision from its expectation of double digit EBITDA growth, it does appear to be predominately a timing issue with recovery expected in 2019 and 2020. We have reached out to management for further clarity on this issue. We will update as soon we are given it.

David Fahy, CFA | Investment Analyst

Tullow Oil - Preview to FY 2018 trading update

Closing Price: £1.98

News

Tullow Oil will release its FY 2018 trading update tomorrow morning highlighting recent operational activities and trading guidance for the financial year. Consensus expects the group to report free cash flow of \$680m and net debt to fall by c.\$800m to \$2.8bn. Operationally, Tullow began the year expecting total production of between 86,000 and 95,000 before narrowing the guidance to the higher end of range through-out the year. Tomorrow, we expect Tullow to report production above 90,500 boepd, FY 2018 revenue of \$2.1bn (up from \$1.7bn) and gross profit of \$945m (up from \$800m).

In addition to the above, we expect Tullow to update on the Uganda farm down, Kenya progress and Guyana drilling timetable.

Comment

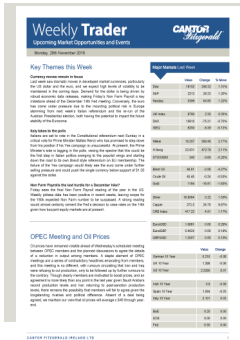
Tomorrows results should be well received given the expected improvement in production, revenue and free cash flow. On a better than expected result, we would expect Tullow to trade up by 5-6% on the day but the medium term share price performance will be determined by the price action of crude which we expect to rally toward \$70 (Brent) before retracing in H2 2019.

Given the success that Exxon has had in Guyana, we are excited by the prospects of Tullow drilling in the region. Other catalysts that would be positively received would be speculation of a stake sale in TEN and possible farm out of Kenya.

Provided that \$58 support holds on Brent, we expect Tullow to trade up toward £2.25 over the short term.

Darren McKinley, CFA | Senior Equity Analyst

Cantor Publications & Resources



Weekly Trader

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Datalex: Datalex provides e-business infrastructure and solutions to customers in the global travel industries.

Tullow Oil: Tullow Oil through subsidiaries, explores for, produces, and refines petroleum

Citigroup: Citigroup Inc. is a diversified financial services holding company that provides a broad range of financial services to consumer and corporate customers.

Persimmon: Persimmon plc designs, develops, and builds residential housing units.

Paddy Power Betfair: Paddy Power Betfair Public Limited Company is a betting and gaming company. The Company provides online betting and gaming products

Historical Recommendation:

Datalex: We have an Outperform rating on Datalex

Tullow Oil: We changed our rating on 29/11/2018 to Under Review from Outperform

Paddy Power Betfair: Currently outlook is Market Perform

Persimmon: The stock is currently not rated

Citigroup: The stock is currently not rated

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