Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Thursday, 24th January 2019

Morning Round Up

Talk is cheap

German Chancellor Angela Merkel and French President Emmanuel Macron met yesterday in Aachen, Germany to deepen a 1963 treaty of post-war reconciliation. The treaty extension, negotiated over the past year, calls for more cooperation on defence, security, and culture. It says a priority of German-French diplomacy will be for Germany to be accepted as a permanent member of the United Nations Security Council. Talk is cheap. That's why the new Franco-German treaty promising more cooperation between the two biggest founding members of the European project is provoking more scepticism than hope. Regardless of whether disbelief is justified, such bilateral accords have become an anachronistic measure of the health of the European Union. More harmony would certainly be useful in domains such as economic governance, although the latest treaty mentions monetary union only in passing. And sometimes the two countries can end up on opposite sides of an argument, as with plans to reform EU copyright rules. But even when Germany and France speak as one, they are not guaranteed to get their way. The proposed merger of Alstom and Siemens' rail business is backed by both countries but is meeting resistance from EU Competition Commissioner Margrethe Vestager. Their inability to always obtain what they want is, however, a sign of success rather than failure. EU institutions that can stand up to two of the bloc's economic and political heavyweights inspire more confidence, not less. Other countries are more likely to respect EU rules if they are applied equitably than if preferential treatment is accorded to the big fish – as appeared to be the case in 2016 when European Commission President Jean-Claude Juncker said France won more fiscal leeway "because it is France". And the perception that Franco-German back-room deals might be imposed on the rest of the EU can undermine support for Brussels in other countries. Nor do such deals do much to help the EU cause at home, as Eurosceptic groups like Alternative for Germany (AfD) in Germany are quick to portray any cooperation as a loss of national sovereignty. In this environment, flaunting grand ambitions that are railroaded through by a couple of leaders who have lost support at home is not the ideal way to further European integration. Better to nurture institutions in Brussels that are strong enough to stand up to both Berlin and Paris. That may lead to messier debates than cosy tête-à-têtes, but the EU will be the healthier for it.

P&G jumps on results

It was a strong start to earnings season for the staples sector as Procter & Gamble reported higher than expected growth last quarter and increased its sales forecast for 2019. Q2/19 sales rose to $17.44bn, above market estimates of $17.16. Q2/19 EPS rose by 5% to $1.25 again beating estimates of $1.21. Importantly it increased its FY19 organic revenue guidance from 2% - 3% to 2% - 4%. Notably pricing increases failed to scare aware customers as overall shipping volumes rose 2%. Pricing contributed 1% to organic sales. This was a welcome update for the broader sector which has faced margin pressure on inability to pass through cost inflation . P&G's stock price rose by 4.9% on the back of these results.

United Rentals sees no sign of recession

United Rentals has a leading market share (13%) in industrial equipment rental in North America with a presence in 49 US states and 10 Canadian provinces. They hire equipment into nearly every industry so viewed as a good bell weather for growth outlook all be it short cycle. FY 2018 results last night guided for mid-single digit growth in US construction in FY 2019 with no sign of any deterioration since they reported prelims in December. Managements investment in technology is also bearing fruit with digital sales +45% YoY. URI reported 22% growth in adjusted EBITDA and 40% growth in free cash flow in 2018. The group completed a $1bn buyback in June and have commenced $1.25bn buyback from July. Significant for a $9bn company. Guidance is for 15% growth in EBITDA in 2019.

Source: Bloomberg, CF Research January 2019

Key Upcoming Events

24/01/2019 ECB
30/01/2019 Fed

Market View

US markets finished higher yesterday as earnings from IBM, P&G and Comcast all delivered. Asia followed suit and continued the positive run with most markets higher. Europe has opened positive this morning, while US futures are pointing to a negative open this afternoon. Yields are tighter, with 10 year US Treasuries at 2.73% and the equivalent German Bund at 21bps. Earnings will dominate market attention with US Airlines, Intel and Starbucks all reporting today. The US Gov't shutdown is driving concerns for Q1 US GDP as Trump postpones the State of the Union address. The ECB meet today with softening data likely to be the focus of the press conference.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24576	171.14	0.70%	5.35%
S&P	2639	5.80	0.22%	5.26%
Nasdaq	7026	5.41	0.08%	5.89%
Nikkei	20575	-19.09	-0.09%	2.80%
Hang Seng	27121	112.78	0.42%	4.93%
Brent Oil	61.18	0.04	0.07%	13.72%
WTI Oil	52.69	0.07	0.13%	16.03%
Gold	1279	-3.34	-0.26%	-0.24%
€/$	1.1345	0.00	-0.32%	-1.06%
€/£	0.8697	0.00	-0.13%	-3.25%
£/$	1.3045	0.00	-0.18%	2.28%

	Yield	Change
German 10 Year	0.213	-0.01
UK 10 Year	1.324	0.00
US 10 Year	2.7372	0.00
Irish 10 Year	0.948	-0.02
Spain 10 Year	1.281	-0.03
Italy 10 Year	2.71	-0.0450

Source: Bloomberg, CF Research January 2019

CPL Resources - Results stronger than expected

Closing Price: €5.90

News

CPL Resources, Ireland’s leading recruitment firm, this morning released H1 2019 results which were much better than expected. Revenue grew by 9% to €279m, earnings per share increased by 32% to 34.9c and interim dividend was raised by 26% to 8c per share. Group operating margin increased by 52bps to 4.16%, a positive surprise given that flexible (temp) talent is now 70% of group fee income, up from 68% last year. Earnings per share partly benefit from a 2017 tender offer at €6.75 a share.

The Group had a net cash balance of €30.2 million as at 31 December 2018 (2017: €12.4 million). In the six months to 31 December 2018, €12.3 million was generated in cash flow from operating activities before tax and changes in working capital (2017: €9.8 million).

Chairman’s Outlook

As we move into the second half of our financial year we are closely monitoring activity levels in our key markets. We remain conscious of the impact of political, regulatory and economic events globally on our business, in particular Brexit. We operate in a cyclical industry which is sensitive to changes in economic activity within our core markets. While our business model has evolved over the years to include more forward secured revenue streams, a material proportion of our net fee income has short term visibility.

Current market conditions are favourable with high demand for talent and low unemployment rates in our key markets. We remain confident in the outlook for the business and expect to deliver continued profitable growth for the remainder of the financial year.

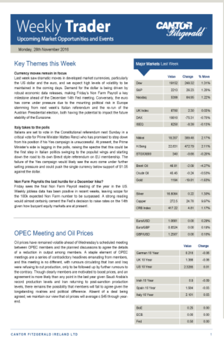
Comment

This was a much better than expected result and sets CPL Resources up for a record earnings in 2019, some 50% higher than its earnings per share reported in 2008. With the stock trading 28% below its peak share price, we continue to see significant upside in CPL Resources and rate its shares a “Buy” with a 12 month view.

We regard CPL Resources management very highly with the acquisition of RIG in the UK an example of the group’s ability to add significant value on behalf of its shareholders. We raise our fair value to €8 post this financial result implying some 30% upside.

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.

[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.

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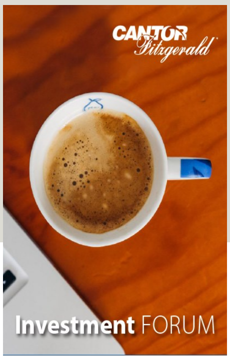

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

[Click here]

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Cpl Resources: Cpl Resources specializes in the provision of permanent and contract IT professionals throughout Ireland.
The Procter & Gamble Company: P&G manufactures and markets consumer products in countries throughout the world.
United Rentals: United Rentals through its subsidiary, is an equipment rental company operating a network of locations in the United States and Canada.

Historical Recommendation:
Cpl Resources: We initiated CPL with an outperform rating on CPL as of 24/01/2019
The Procter & Gamble Company: We currently do not cover P&G
United Rentals: We currently do not cover United Rentals

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