Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 25th January 2019

Morning Round Up

Ryanair cabin crew union back agreement
Ryanair's Spanish cabin crew, which threatened strike action earlier in the month, have voted in favour of a contract agreement reached by representatives and the airlines. This marks another positive step for management as they move toward full Collective Labour Agreements (CLAs) across its respective pilot and cabin crew unions. All of the major unions have now signed some form of agreement with a number signing full CLAs. Ryanair report Q3/19 results on the 4th of February.

Oil gains on Venezuela risk
Oil has moved forward this morning after both the US and Canada acknowledged support for the country's opposition leader, increasing the likelihood of sanctions. Under President Maduro, Venezuela's output of oil has already plunged to 1.1m b/d. Last years OPEC cuts along with other political issues in Iran, Nigeria and Libya is building upward pressure on oil. With the demand side supportive for the time being we see further price appreciation in the short term. However we maintain our year end view for WTI to range between $45-$50.

Starbucks modestly beats
Starbucks released its Q1 2019 financial results last night which on the headline modestly beat but the quality of such was low. Starbucks shares trade up by c.10% over the last year to trade on 26x trailing earnings. While the headline is that net revenue grew by 9% YoY and that non-GAAP earnings grew by 15%, a closer look highlights that operating income decline by 9% YoY with operating margin declined from 18.4% to 15.3%. Revenue growth was supported by price increases (4% in the US) across already expensive products with China comparable transaction volumes falling by 2% in Q4 2018, relative to a 6% gain in Q4 2017. Starbucks earnings growth has been supported by a $10bn buyback but with free cash flow expected to decline, the outlook for buybacks deteriorate come 2020. Starbucks may have underestimated the competitive threat of Luckin Coffee in China who plan to compete aggressively with Starbucks in their core growth market. The investment case for Starbucks has challenges given the valuation multiple relative to growth.

GAN releases positive results
GAN Plc, the Michael & Dermot Smurfit backed US internet gambling software company, released a trading update this morning with Dermot Smurfit Jnr, CEO, reporting that FY 2018 revenue will be 5-10% ahead of consensus expectations at £10.8m (midpoint). The better than expected result was driven by real money internet gambling which reported a 40% growth in revenue HoH in H2 2018. EBITDA is expected to be a loss of £1.25m in FY 2018 as the company continues to invest in its platform. FY 2019 guidance is for strong revenue growth and a return to gains at the EBITDA line. Recent contracts with FanDuel (Paddy Power Betfair) and legislation changes in the US are significant developments

Core portfolio change
We have reduced our holding in Glanbia to 2% from 4% this morning. We will move 1% into both Microsoft and SAP bringing both their respective allocations to 5%. This change is a result of our confidence in Microsoft and SAP going into results next. Glanbia is trading at the top of a range and short term upside may be limited. We remain positive on the stock from a longer term perspective.

Source: Bloomberg, CF Research January 2019

Key Upcoming Events

28/01/2018 US Tech Earnings
30/01/2019 Fed

Market View

Equity markets are stronger this morning with chipmakers and software stocks leading the way after strong results in Europe. This is despite weak guidance from Intel last night. The pound is headed for its best week in a year as market expectations of a no deal continue to fall. This was supported by reports that the DUP have agreed to support Mays plan B Brexit deal. The Euro is holding steady, despite the ECB's recognition of the downside risk to the economy yesterday evening and weaker than expect PMI's across the region in January. The market will now look toward next week when earnings season ramps up.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24553	-22.38	-0.09%	5.25%
S&P	2642	3.63	0.14%	5.40%
Nasdaq	7073	47.69	0.68%	6.60%
Nikkei	20774	198.93	0.97%	3.79%
Hang Seng	27569	448.21	1.65%	6.67%
Brent Oil	61.55	0.46	0.75%	14.41%
WTI Oil	53.49	0.36	0.68%	17.79%
Gold	1284	2.42	0.19%	0.09%
€/$	1.1325	0.00	0.19%	-1.24%
€/£	0.8659	0.00	0.07%	-3.67%
£/$	1.3079	0.00	0.10%	2.55%

	Yield	Change
German 10 Year	0.186	0.01
UK 10 Year	1.286	0.02
US 10 Year	2.7279	0.01
Irish 10 Year	0.913	0.00
Spain 10 Year	1.211	-0.03
Italy 10 Year	2.64	-0.0180

Source: Bloomberg, CF Research January 2019

Vodafone - Easing headwinds but Service Revenues disappoint

Closing Price: GBp 144.04

News

Vodafone released results this morning for its third quarter that should address some market concerns relating to recent performance. While, top line service revenues came in marginally behind consensus estimates at €9.78bn in the quarter (est. €9.82bn), organic service revenue was expected to contract 70bps but posted growth of 10bps. Rest of the World segment slowed to 4.9% (from 7.7%) growth on weaker numbers from South Africa, while remaining markets in the segment performed well. Management noted improving trends in Italy and reduced churn in Spain, as competitive intensity moderated. Vodafone Business posted disappointing numbers with service revenues declining 0.5%. Weaker mobile numbers in the segment as well as a slowdown in the Automotive segment of Internet of Things (IoT) were called out.

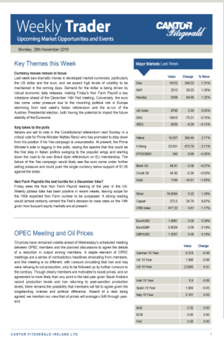
Management maintained guidance on FCF and EBITDA growth. Pre-spectrum Free Cash Flow is expected to be €5.4bn for the full year, which would support managements dividend policy and EBITDA growth is maintained at +3%. Vodafone has entered into two partnerships to drive efficiencies and optimise its offering. Combining its tower infrastructure with Telefonica in the UK should reduce the balance sheet's debt burden, while an IBM partnership should accelerate Vodafone's customers transition to cloud services and increase data usage. Finally, management addressed its intention to explore monetising UK tower infrastructure.

Comment

After yesterday's negative news regarding both its Indian and South African ventures, this morning's release affirmed Vodafone's position. The business has faced several headwinds over the previous 12 months including FX and EM weakness, intense competition across several markets and questions regarding leverage. We are beginning to see these headwinds abate as management address relevant issues. The markets biggest fear is a cut to Vodafone's best in class dividend, which currently has a forward yield of almost 9%. We see management maintaining current guidance as very encouraging regarding dividend policy and its move to reduce leverage by utilising its tower infrastructure also points to its commitment to its dividend policy. The stock opened lower this morning as service revenue performance disappointed (the Business segment), however, we see light at the end of the tunnel as some of the major headwinds begin to reduce. Integration of Liberty Global's assets in Germany and further easing in Spanish and Italian competition should lead to improved stability in earnings, while the longer-term strategy relating to quality, 5G and increased reliance on data delivers. We retain an outperform on the stock and expect it to trade higher throughout the quarter as the market digests this release and the FY dividend comes into play.

Pierce Byrne, CFA | Investment 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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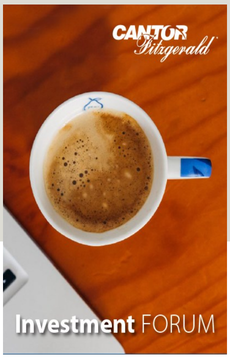

Investment Forum

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)

Vodafone: is a mobile telecommunications company providing a range of services, including voice and data communications

Historical Recommendation:

Vodafone: We have been positive on Vodafone's outlook since 04/02/14 and no changes have been made to this recommendation in the last 12 months

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Dublin: 75 St. Stephen's Green, Dublin 2. Tel: +353 1 633 3633.

email : ireland@cantor.com **web :** www.cantorfitzgerald.ie

Twitter : @cantorIreland **Linkedin :** Cantor Fitzgerald Ireland