Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 30th January 2019

Morning Round Up

Siemens Q1 misses estimates on weak P&G
Power and Gas segment continues to weigh on the group, as it posted a 50% drop in Adjusted EBITA with margin falling to 4.2% from 7.6%. Group orders advanced 12% to €25.17bn, while revenues missed estimates at €20.12bn (est. €20.47bn). Book to bill ratio was 1.25, as the order back log reached €137bn. Earnings also fell short with group EBITA of €2.07bn (est. €2.14bn) with margin of 10.2%. Management maintained its guidance of 11-12% margin and EPS between €6.00-€7.00. Siemens CEO took a tough stance on Europe's antitrust regulators who are making the merger of Siemens rail business with Alstom challenging. The delay is hurting the Vision 2020 strategy which is looking for Siemens to evolve to a holding company structure as it listed its healthcare division and merged its wind turbine unit. Tighter margins will likely see the stock weaker but management maintaining guidance is encouraging. Performance of the more technology-based businesses was also very encouraging, with Digital Factory and Process Industries & Drives both posting strong results.

Wizz Q3 update
Wizz released a broadly positive Q3/19 update this morning as its guidance of full year net income remained unchanged (€270m-€300m). However, this is dependent on March yields which are affected by Easter falling into FY20 and bookings from the UK. After dropping capacity growth last quarter it expects to bring this back to higher levels from next year. Interestingly, management noted that it was able to alleviate higher costs through higher yields over the year. On an interview following the release József Váradi, CEO, highlighted his expectations of further consolidation in the market as only 5/6 airlines in Europe are performing adequately. This theme will be important at Ryanair's Q3 update on Monday.

Novartis results disappoint
Novartis fell on open this morning after missing on both top and bottom line last quarter, while forecast for FY19 will likely result in downgrades. Profitability is suffering from pricing pressures in the US and a number of former blockbuster products are becoming dated. The pharmaceuticals sector is facing a number of headwinds this year including stretched valuations after last years strength and US pricing pressure. We advise clients to take exposure to Healthcare via UnitedHealth Group and Pfizer.

LVMH reports continued sales growth
LVMH reported better than expected Q4 results, reporting 9% organic sales growth and H2 EBIT grew by 15% YoY to €5.35bn. More significantly, LVMH reported 17% organic sales growth within its Fashion and Leather division which is incredible for a €10bn brand line. LVMH trades on 19x 2019 earnings, post trading up by 6% today post results. LVMH did not report any slow down in China.

Siemens Gamesa gains 10%
Siemens Gamesa shares were up 10% yesterday post reporting Q4 2018 results, within which management reported that wind power pricing has started to improve on a per KWH basis. Vestas Systems was up 4% also. **Vestas Systems is in the Green Effects fund.**

Source: Bloomberg, CF Research January 2019

Key Upcoming Events

30/01/2019 Fed Interest Rate Decision
01/02/2019 US Jobs Data

Market View

Equity markets are broadly flat this morning as a wave of macroeconomic catalysts come to a head this week. Trade talks between China and the US will be closely watched today and tomorrow with an outcome likely to drive markets one way or the other. The FOMC meets today, with no change to interest rates expected, the press conference will give investors an insight into Powell's policy direction. Brexit will remain in focus after the UK parliament voted in favour of renegotiating the withdrawal agreement. US earnings season continues with a number of tech names including Facebook, Microsoft, Samsung and Alibaba all reporting.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24580	51.74	0.21%	5.37%
S&P	2640	-3.85	-0.15%	5.31%
Nasdaq	7028	-57.39	-0.81%	5.92%
Nikkei	20557	-108.10	-0.52%	2.71%
Hang Seng	27643	111.17	0.40%	6.95%
Brent Oil	61.33	0.01	0.02%	14.00%
WTI Oil	53.39	0.08	0.15%	17.57%
Gold	1314	1.99	0.15%	2.44%
€/$	1.143	0.00	-0.03%	-0.32%
€/£	0.8721	0.00	-0.32%	-2.98%
£/$	1.3105	0.00	0.30%	2.75%

	Yield	Change
German 10 Year	0.202	0.00
UK 10 Year	1.263	-0.01
US 10 Year	2.7222	0.01
Irish 10 Year	0.941	0.00
Spain 10 Year	1.28	0.04
Italy 10 Year	2.65	0.0120

Source: Bloomberg, CF Research January 2019

Brexit- UK looks to replace Irish Backstop

British lawmakers instruct May to change “Brexit” deal; EU says “No”

British lawmakers on Tuesday instructed Prime Minister Theresa May to reopen a “Brexit” treaty with the European Union to replace a controversial Irish border arrangement - and promptly received a flat rejection from Brussels. Two weeks after overwhelmingly rejecting May's “Brexit” deal, parliament backed a proposal intended to send her back to Brussels with a stronger mandate to seek changes that were more likely to win their support. At the same time, they rejected a proposal to give parliament a path to prevent a potentially chaotic “no-deal” exit by making May ask Brussels for a delay if she cannot get a deal through parliament. With two months left until Britain is due by law to leave the EU, investors and allies have urged the government to clinch a deal to allow an orderly exit from the club it joined in 1973. The Irish backstop is an insurance policy that aims to prevent the reintroduction of a hard border between Ireland and the British province of Northern Ireland, a crucial part of a 1998 peace deal that ended decades of sectarian violence, and preserve frictionless trade. However, critics say it could bind the United Kingdom to the EU's rules indefinitely. The proposal, put forward by influential Conservative lawmaker Graham Brady and passed by 317 votes to 301, called for the backstop to be replaced with unspecified "alternative arrangements", and said parliament would support May's “Brexit” deal if such a change was made.

But, Brussels has repeatedly said it does not want to reopen a treaty signed off by the other 27 EU leaders. Speaking immediately after the vote in parliament, a spokesman for European Council President Donald Tusk said the backstop was part of the withdrawal deal and not up for negotiation, a stance echoed by the Irish government.

Alan McQuaid | Economist

Cairn Homes - Management meeting re-affirms our Buy recommendation

Closing Price: €1.31

News

Cantor Fitzgerald Ireland Research Team hosted Michael Stanley, CEO and Declan Murray, Head of IR of Cairn Homes in house yesterday afternoon to discuss the Irish residential market and the outlook for Cairn Homes.

The key points that we took from the meeting were that the business is now much lower risk than in 2015/2016 as it has now scaled and matured with revenue in 2018 c.100x that of 2015, management are confident that the unit growth from 800 units in 2018 to 1,100 units in 2019 is relatively low risk and is key to earnings growth, demand for residential assets continue to grow significantly driven by first time buyers/downsizers/PRS and supply is constrained by shortage of scaled developers.

It was reiterated that Cairn Homes has c.14,000 unit sites across some of the best locations in the greater Dublin area and that given the cheap cost of the sites, Cairn Homes is well placed to churn out affordable new builds at €325k-€350k and still earn a cash margin of 40%. As they run down their balance sheet land bank to 8,000-9,000 units over the next few years, Cairn will generate €350m-€400m in free cash flow which could be returned to shareholders via dividends and buybacks in due course. This is equivalent to 35% of the company’s market cap.

Management believe that there are 350,000 couples in the GDA that have a combined salary of €90,000 and well placed to afford a new starter home at prices up to €350,000. 50% of these couples are currently renting with monthly rents (€1,800) running at c.35% higher than a mortgage payment (€1,350) for the same house. FY 2018 supply of new units is running close to 15,000 in Dublin. An additional point made was that there is 600,000 sqft of office space under construction which should imply an additional 5,000-6,000 staff who require accommodation most likely in the CBD.

Management are not concerned about wage inflation or labour constraints highlighting that sub-contractors view Cairn Homes as a sustainable income provider relative to other builders.

Finally, Cairn own a 180 acre site in Clonburris that has been rezoned as a strategic development zone. This landbank has two train stations on it and is prime for future new build starter homes.

Comment

We left the meeting more confident that the recent correction in Cairn Homes is an opportunity to acquire a mature, cash generating market leader in an under supplied market for residential units.

We see catalysts by way future dividends, buybacks, positive free cash flow and continued earnings growth which is now supported by a more reasonable valuation multiple. Our 12 month fair value is €1.60 which would imply 23% upside. “Buy”

Darren McKinley, CFA | Senior Equity Analyst

Verizon - Disappointing guidance weighs despite strong core performance

Closing Price: $53.28

News

Verizon released its Q4 results yesterday, which saw the stock trade down 3% on open. Q4 operating revenue came in marginally behind estimates at $34.3bn (est. $34.4bn). Full year revenues were $130.8bn up 3.8% on FY17 numbers, wireless equipment revenue (c. 17%) drove growth posting 17.8% in FY18. Full year operating expense grew at 5.5% (ex-Oath impairment) to $104bn. Adjusted EBITDA and earnings per share (EPS) beat estimates at $11.59bn (est. $11.54bn) and $1.12 (est. $1.09) respectively.

Underlying unit performance was encouraging. In the Wireless Division, the company added 1.2mln net phone adds in Q4 across smartphone, phone, tablet and wearables. Full year revenue in the unit was up 4.8% on 2017 at $91.7bn, with EBITDA of $42.6bn up 10.2% on FY17 and margin expansion to 46.4%. The Wireline Division saw revenue and EBITDA contract in FY18. Revenues fell 1.5% to $12.6bn and both EBITDA and EBITDA margin contracted to $5.9bn (-9.2%) and 19.9% (-1.2%). The media arm Oath (Yahoo & AOL), which took an impairment charge of $4.5bn in Q4, performed poorly with revenue down 5.8%.

Verizon was the first company to roll out 5G services and delivered strong performance in its wireless division. Churn rates are particularly strong in its retail segment at 0.82% in post-paid phone. The improvement in the balance sheet was also encouraging, with net debt down to 2.3x, an increase of $10bn in free cash flow and a dividend of $9.8bn. Management are guiding low single digit growth in FY19 revenues, adjusted EPS to be in line with FY18, cap-ex spending to be $17-18bn and on track to deliver $10bn in cost savings by 2021.

Comment

Yesterday's announcement contained a mixed set of results, with somewhat downbeat guidance outpacing the pre-announced strong performance form the core wireless business. The core business is performing well and should continue to provide stable results. The medium-term opportunity remains in its 5G strategy, which has the potential to transform the business over the coming years. Somewhat weak performance in the wireline section also weighed on sentiment, while the media company Oath is set to take a back seat. For us, balance sheet improvement was very encouraging and continued cost restructuring with $10bn on offer by 2021 also a positive as expense growth outpaced revenue growth in FY18. We retain our outperform rating on Verizon and recommend it as strong US defensive name with a good yield in addition to a structural growth theme through its 5G network.

Pierce Byrne, CFA | Investment Analyst

Apple - Q1 results met with relief

Closing Price: $154.68

News

Apple released Q1 earnings aftermarket yesterday, which were well received by the market as the stock traded up 6% in afterhours trading. Results were in line with expectations post Tim Cook's profit warning earlier in January. Revenue in the quarter was $84bn compared with a year previous at $88bn, however, it came in marginally ahead of analysts' estimates of $83.97bn. US revenue were marginally ahead year on year, but European revenues were weaker, while Greater China revenues were $5bn lower than FY17 at $13.17bn. Outside of iPhone sales, the remaining segments (iPad, Mac, Wearables & Home, and Services) performed very well. Revenues ex iPhone grew by 19%. iPhone revenues declined by $10bn to $51.9bn which management assigned to timing issue between new model releases and weaker China sales.

Q1 earnings per share (EPS) came in ahead of estimate at $4.18 (est. $4.17). EPS was ahead of its equivalent Q118 figure despite lower Net Income as issued shares were 8% lower. Gross margins contracted in Q1 with products gross margin 34.3% versus Q118 of 36.1%, service gross margin expanded to 62.8% from 58.3%. Total margin contracted from 38.4% in Q118 to 37.9% in this quarter. Management have guided for total margin between 37%-38% for Q2.

Comment

While the market reacted positively to yesterday's results, Apple retains several headwinds and is on track to deliver two consecutive quarters of revenue declines. Despite encouraging performance outside of the iPhone, the iPhone segment represents 60% of the business and represents most of the install base, which all other segments leverage off. Pricing is the number one issue for Tim Cook. Consumers, especially outside the US, did not like the latest model pricing. FY18 saw pricing drive revenue growth with average selling price hitting $793. With pricing maxed, competition in China (Apple losing share to a range of hardware competitors) and priced out of India (average selling price of a smartphone in India is closer to $150-$200), it's difficult to see how iPhone delivers sales growth. In the short term, we would expect management to drive efficiencies to maintain earnings growth, which is a speciality of Mr Cook. However, the iPhone needs a new trick to rejuvenate growth. We expect Apple to trade in a range of $150-$175 (12x-13x forward earnings) for the time being. A resolution of US-China trade could see it temporarily break above these levels, but we retain the view that iPhone sales are facing more fundamental headwinds as well as a weaker consumer globally. We are moving Apple to market perform and would recommend clients to consider reducing exposure.

Pierce Byrne, CFA | Investment Analyst

Pfizer - Gains on pipeline potential

Closing Price: $40.77

News

Pfizer released a mixed set of results yesterday afternoon as it beat on both top and bottom line in Q4/18 but guidance for FY19 came in below market estimates. Q4/19 revenue grew by 2.1% to $53.64m, above market estimates of $53.54m. FY19 guidance disappointed with revenue forecast to range between $52bn -$54bn (consensus $54.3bn) and EPS forecast to range between $2.82-$2.92 (consensus $3.04). FY19 is expected to be adversely effected by unfavourable FX moves (-$900m), full year revenue expense contributions from the Consumer Healthcare business and loss of exclusivity for Lyrica. Over the year $20.2bn was returned to shareholders through $8bn dividends and $12.2bn share repurchases. It also confirmed that it intends to buyback $9bn shares in 2019. Management provided a mixed update on the phase 3 data for tanezumab (osteoarthritis drug), whose lower dose reading was poorer than expected but had an improvement at a higher dose.

Looking at the underlying segments, the innovative health segment revenues increased by 10% driven by strong Eliquis (+37%), Xeljanz (+37%) and Prevenar (+13%) sales. Essential Health declined by 3% due to a 13% drop in Legacy Established Products, 14% decline in Sterile Injectable Pharmaceuticals and a 10% decline in Peri-LOE products.

Comment

The stock rose by 3.1% yesterday despite the disappointing FY19 guidance. As was evident in both J&J and Novartis recent updates, there are a number of headwinds facing the pharmaceuticals sector this year including slightly stretched valuations, FX and US pricing pressures. However as was expected, the new CEO Albert Bourla, was positive in his outlook, particularly on the future pipeline (which led to a significant rerating last year). 2019 will prove to be important for Pfizer's short term prospects with a number of clinical data readouts expected. Management have previously highlighted 15 potential block buster drugs it hopes to bring to the market.

Given its pipeline advancements, strength in its Innovative Health segment, diversified revenue stream, product exclusivity relative to peers and capital distribution, Pfizer is our preferred US pharmaceutical. We expect to it to rerate toward the $45 in the short term. Should it achieve positive clinical readouts from some new products it should push past this level. Our Cantor US team maintain a 12m PT of $53.

David Fahy, CFA | Investment Analyst

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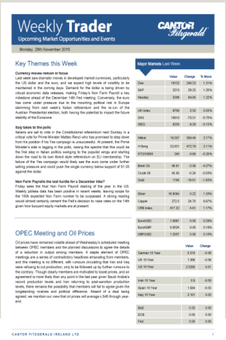

Weekly Trader

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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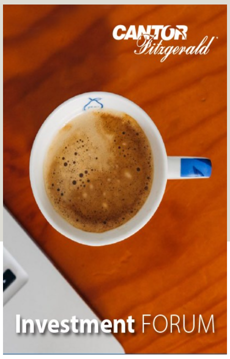

Investment Forum

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)

Pfizer: Pfizer Inc. operates as a pharmaceutical company. The Company offers medicines, vaccines, medical devices, and consumer healthcare products for oncology, inflammation, cardiovascular, and other therapeutic areas

Apple: Apple Inc. designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions. The Company sells its products worldwide through its online stores, its retail stores, its direct sales force, third-party wholesalers, and resellers

Cairn Homes PLC: Cairn Homes provides construction services. The Company design and build homes. Cairn Homes operates in Ireland.

Verizon: Verizon Communications Inc. is an integrated telecommunications company that provides wire line voice and data services, wireless services, internet services, and published directory information.

Historical Recommendation:

Pfizer: We have had an outperform rating on Pfizer since 23/07/2018

Apple: We changed our rating on Apple to Market Perform from Outperform, as of 30/01/2019

Cairn Homes PLC: We initiated an Outperform rating on the 30/11/2018

Verizon: We have been positive on Verizon, since 26/02/14 and no change has been made to our recommendation since then.

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