Daily **Note**

Views, news and topics from today's markets

Thursday, 31st January 2019

Morning Round Up

Fed says will be "patient" on future rate-hikes

The Federal Reserve on Wednesday signalled its three-year-drive to tighten monetary policy may be at an end amid a suddenly cloudy outlook for the US economy due to global headwinds and impasses over trade and government budget negotiations. As it held interest rates steady, the US central bank also discarded its promises of "further gradual increases" in interest rates, and said it would be "patient" before making any further moves. Fed Chairman Jerome Powell said the case for rate-increases had "weakened" in recent weeks, with neither rising inflation or financial stability considered a risk, and "cross-currents" including slowing growth overseas and the self-inflicted wound of a federal government shutdown making the US outlook less certain. Continued US economic growth was still "the likeliest outcome," Powell said, but was now less certain than a month ago when the Fed said the economy was just as likely to grow faster than expected as it was to face a sharp downturn. Combined with comments that the US central bank's balance sheet would remain larger than previously expected, the Fed's meeting this week may mark a somewhat anticlimactic end to its years-long battle to "normalise" monetary policy after the 2007-2009 financial crisis and recession. The current Fed policy rate of between 2.25% and 2.50% is well below historical averages and, if it goes no higher, the US central bank will have little room to battle any future downturn with rate-cuts alone.

Visa beats estimates but cautious on transaction volume

Visa reported first quarter results coming in ahead of analysts estimates. Q1 revenues were $5.5bn (est. $5.41bn) and earnings per share (EPS) of $1.30 (est. $1.25). Payment volume growth was 11% as consumers increasingly favour card over cash, with processed transaction in the quarter at 33.9bn. Management confirmed repurchased share of $2.3bn in the quarter. Additionally, it announced $8.5bn has been authorised for share repurchases leaving $9.8bn in funds available for repurchases. Management also reaffirmed full year guidance of low double digit growth in revenue, but did warn against lower consumer spending volumes citing the Gov't shutdown and unresolved geopolitical issues. We like Visa and see the wider payments sector as a structural growth theme that clients should be considering. Our US equity team have an overweight rating on Visa with a price target of $160.

Diageo report strong earnings

Diageo reported a strong set of interim results for the six months ended 31 December 2018. Reported net sales £6.9bn vs consensus £6.5bn were up 5.8%, with organic growth partially offset by unfavourable exchange rates. Reported operating profit £2.4bn was up 11%, driven by organic growth. Cash flow was very strong at £1.34bn (+31%), which enabled management to increase the size of the buyback, from £2.4bn to £3.0bn. The interim dividend was increased by 5% to 26.1 pence. Growth was broad based: Asia Pac (+13%), North Am(+6%), Europe (+5%), Africa (+6%) and LAT Am (+9%). US spirits grew 5%, as vodka stabilized and Johnnie Walker grew 10%. Guidance was maintained at mid-single digit top line and +175bps of margins. The market has responded positively to the result this morning, trading at GBP 2900 (+4.5%) an all-time high. Diageo yields 2.3%, and trades on a FY2019 23X.

Unilever mixed Q4 2018 and year end results.

Q4 organic top line growth (+2.9%) was below consensus (+3.5%). Pricing growth (+2.1%) was the highest since Q3 2017, but volume growth was lacklustre (+0.8%). H2 margin was strong (+90bps), constant currency underlying EPS growth (+13%) was good but weaker including FX headwinds. FY 2019 organic growth guidance is in the lower half of its long-term goal of 3-5%, with the company expecting market conditions to remain challenging in 2019. Unilever is trading down 3.0% after the results this morning, reflecting the top-line miss and slightly cautious 2019 top-line guidance. The stock is trading on a rating 18.0x and 3.5% yield for 2019.

Source: Bloomberg, CF Research January 2019

Key Upcoming Events

01/02/2019 US Jobs Data

Market View

US markets closed after a dovish Fed Chair was welcomed by markets, with the S&P up 1.5% and the NASDAQ up 2.2%. Sentiment continued into Asia with Japan leading the region. Europe has been more muted and US futures are pointing to a positive open. US yields are lower on the back of the Fed's comments. Markets continue to focus on earnings, with a number of tech names out overnight. Amazon will be watched closely today, as well as MasterCard, GE and UPS. All giving investors a steer on the US economy. On the data front, Friday sees a raft of US labour data released with Non Farm Payrolls and average hourly earnings to be published.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25015	434.90	1.77%	7.23%
S&P	2681	41.05	1.55%	6.95%
Nasdaq	7183	154.79	2.20%	8.26%
Nikkei	20773	216.95	1.06%	3.79%
Hang Seng	27942	299.62	1.08%	8.11%
Brent Oil	61.73	0.08	0.13%	14.74%
WTI Oil	54.18	-0.05	-0.09%	19.31%
Gold	1321	1.12	0.08%	3.01%
€/$	1.1489	0.00	0.08%	0.19%
€/£	0.8758	0.00	0.06%	-2.57%
£/$	1.3118	0.00	0.02%	2.85%

	Yield	Change
German 10 Year	0.169	-0.02
UK 10 Year	1.228	-0.03
US 10 Year	2.6595	-0.02
Irish 10 Year	0.898	-0.03
Spain 10 Year	1.216	-0.04
Italy 10 Year	2.58	-0.0210

Source: Bloomberg, CF Research January 2019

Microsoft - Broadly positive with some weak points

Closing Price: $106.38

News

Microsoft released a solid update after market last night, however, some slight misses on revenues led the price to drop by 2.5% in afterhours trading, erasing the 3% gains it made during the day. Revenue grew by 12.3% to $32.47bn, marginally below estimates of $32.51bn. Q3/19 revenue guidance was slightly weaker than expected with management predicting revenue to range between $29.4bn - $30.1bn (midpoint $29.75), below expectations of $29.87bn. EPS grew by 15% to $1.10, slightly ahead of estimates of $1.09.

The Intelligent cloud business (which includes Azure) was strong again, beating expectations with revenue of $9.38bn (vs $9.28bn). Azure performed well, growing by 76%, in line with the previous quarter. However, as expected, this growth was below last years trend. The gross margin for the commercial cloud widened to 62%. The More Personal Computing segment (includes Gaming, Surface and Windows) was weaker than expected,. Revenue for the segment came in at in at $12.99bn (vs $13.08bn). Windows OEM itself was notably weak, falling by 5%. The Productivity and Business Process segment (includes Dynamics, LinkedIn and Office) beat estimates with $10.10bn in revenue (vs $10.09bn), Office 365 was notably strong growing by 34%.

Comment

Despite some weak points, these results were broadly positive. Growth in the highly profitable Cloud business remains strong and deals over the quarter with Gap, Walgreens and the recently acquired Glint will add to these revenues. Microsoft is well positioned to gain from higher corporate Cloud spend, which is still in it's infancy. There were some other notable performances including Server Products, Dynamic Products and Office 365. Portions of the legacy business (Windows in particular) disappointed, however, its relevance is diminishing. We maintain our Outperform rating and continue to advise clients to pick up this stock. The 12M consensus PT of $125.42 is a fair representation of the current upside.

David Fahy, CFA | Investment Analyst

PayPal Holdings - Weaker guidance sees the stock trade lower

Closing Price: $92.42

News

PayPal released results aftermarket yesterday with the stock trading lower with a rare miss in guidance from the payments giant. Fourth quarter revenue came in at consensus estimates at $4.23bn, which represents 13% growth. Earnings beat estimates at 69c (est. 67c). Guidance generated the disappointment. Q1 revenues missed estimates, which are guided between $4.08bn-$4.13bn (est. $4.16bn) and Q1 EPS was guided between 66c-68c in line with estimates of 67c.

The underlying operating business continues to perform well with key metrics trending higher. Total payment volume (TPV) of $164bn, which was 23% higher. 13.8mln new active accounts were added in the quarter versus 8.7mln in Q417, posting 2.9bn transactions. Transactions per account trended higher to 36.9. Venmo, the mobile payments service, saw total payment volume increase by 80% as management have "line of sight" to profitability in H2.

Comment

Analyst have come to expect PayPal to deliver each quarter and yesterday's miss has seen the stock fall back 3.6% in afterhours trading. Guidance was weaker than the market expected, however, we remain positive on the investment case for PayPal. Underlying operating metrics continue to trend higher, with PayPal one of the best positioned to handle increasing online transaction volume. The general payments sector is a structural theme we like as society reduces the amount of cash it uses. PayPal should benefit from this trend. Monetising Venmo is a priority for management, which is well placed to capitalise on mobile payments giving them a foothold outside of online. We retain an outperform rating and advise client to considering adding to positions below $90. Our US equity team have a price target of $101 on the stock, marginally ahead of consensus.

Pierce Byrne, CFA | Investment Analyst

Royal Dutch Shell - Rises on strong cash flow generation

Closing Price: £22.85

News

Shell released a strong set of Q4/19 results this morning, delivering on the required cash flow generation in order to meet its sizeable dividend, $25bn buyback and debt reductions. This was despite the significant drop in oil prices in the final quarter of last year and the completion of the $30bn divestments plan. Profits reached their highest level since $100 oil back in 2014, reflecting the cost savings and operational improvements made. Revenue in the quarter grew by 19.67% to $102.23n, significantly above expectations of $94bn. Net income was strong, growing 32.19% to $5.69bn, above street expectations of $5.39bn. EPS grew by 32.69% to $0.69, above estimates of $0.649. Cash flow from operations of $22bn, which included positive working capital movements of $9.1bn, was notably strong in the fourth quarter. Management confirmed it has started the next tranche of its buyback program.

Looking at the underlying segments, the Integrated Gas segment performed well benefitting from higher realised oil, gas and LNG prices, as well as higher contributions from LNG trading. Upstream was better than expected with earnings growing to $6.798bn. Downstream performed well benefitting from increased contributions from crude oil trading and stronger refining and marketing margins.

Comment

This was a positive set of results leading the stock to rise by 4% this morning. Despite volatile oil prices, Shell was able to maintain leading cash flow generation, returning significant value to shareholders. Cost discipline and operational efficiencies ensure management will met the current economic challenges. We expect Shell to continue to generate the sufficient cash flow to maintain its dividend commitments, $25bn buyback and debt reduction plan. Importantly management has delivered on its $30bn divestment plan, while starting up some new high growth projects. Shell remains our preferred names in the energy space with a dividend yield of 6% and an attractive P/E of 11x.

David Fahy, CFA | Investment Analyst

Facebook - Share price jumps on decent beats

Closing Price: $150.42

News

Facebook released a strong set of Q4/18 results last night, leading to it gain by 11.5% in aftermarket trading, having already increased by 3.5% earlier in the day. Revenue grew by 30.4% to $16.91bn above expectations of $16.38bn, as advertisers continued to choose Facebook despite the highly publicised data regulation issues. EPS produced a decent beat, growing by 11.8% to $2.38, above street estimates of $2.18. Daily active users, an important metric for measuring customer interaction, grew by 9% to 1.52bn. Monthly active users came in as expected at 2.32bn. User numbers were strong across Messenger, WhatsApp and Instagram (stories growing to 500m). Gross profit margins came in as expected at 83.5%. Management reiterated guidance that revenue growth would slow in 2019 as continues to explore new methods to monetise Instagram, Messenger, stories and video.

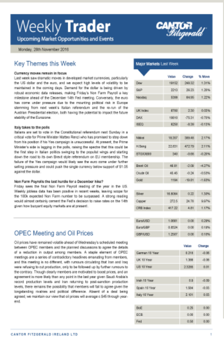
Comment

These were an impressive set of result and alleviating some concerns that advertisers will seek alternative platforms after the numerous data scandals last year. This is an important year for Facebook as it attempts to reorganise its suite of products and subsequently monetise some of its assets. This will have an adverse effect on its bottom line with flat EPS growth this year, however revenue growth is still expected to remain above 20% for the next three years. Management did note that the core Facebook platform will likely see falls in the future, and usership numbers will shift to cover the Facebook family (Facebook, Messenger, Instagram, WhatsApp) of products.

As we noted last month Facebook has undergone a sizeable derating over the past number of months with its 12m forward EV/ EBITDA (10x) falling by 40% in 2018 alone . This had left it trade at a valuation close to that of broader S&P index and below the majority of its Technology peers. Regulation remains the major headwind and we maintain a preference for cloud based technology names. It will likely retrace after an initial jump on open this morning, from a 12m perspective we remain positive on the stock with an Outperform rating. Consensus PT of $188 is a fair representation of 12m value in our opinion.

David Fahy, 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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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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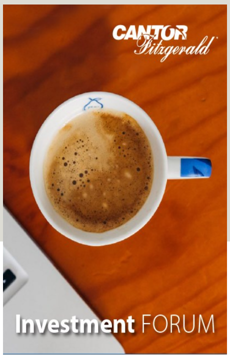

Investment Forum

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)
Facebook: Facebook Inc. operates a social networking site
Microsoft: Microsoft Corporation develops, manufactures, licenses, sells, and supports software products.
PayPal: PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants
Royal Dutch Shell: Royal Dutch Shell explores, produces, and refines petroleum
Visa: Visa operates a retail electronic payments network and manages global financial services.
Diageo: Diageo produces, distills, and markets alcoholic beverages.

Historical Recommendation:
Facebook: We have an Outperform rating on Facebook since the 11/05/2015
Microsoft: Microsoft Corp is a member of our core portfolio and we have an Outperform rating on the stock since 12/01/2018
PayPal: Paypal Holdings Inc is a member of our core portfolio and we have an Outperform rating on the stock since 20/07/2015
Royal Dutch Shell: Royal Dutch Shell Plc is a member of our core portfolio and we have an Outperform rating on the stock since 20/05/2013
Visa: Visa is not currently rated
Diageo: Diageo is not currently rated

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