

Weekly Trader

Upcoming Market Opportunities and Events

CANTOR
Fitzgerald

Monday, 7th January 2019

Key Themes This Week

The Week Ahead

After a challenging 2018 for equity markets, we look forward to 2019 somewhat more optimistically. Some progress or easing on the major factors, such as Trade, Brexit and US Monetary Policy should provide a platform for equities to outperform and recover the losses experienced in Q4 of 2018.

Friday saw Fed Chairman, Jerome Powell, speak at the American Economic Association's conference in Atlanta with two former Chairs of the Fed. The market has been looking to the Fed to slow the pace of rate hikes as investors fear a US recession. Powell's comments assuaged equity markets for now as he noted the Fed is "listening closely" to equity markets, it would be patient with tightening on lacklustre inflation data and that it retains policy flexibility on the Balance Sheet in addition to interest rates. Chairman Powell was asked if he would resign on President Trump's request, he emphatically answered "no". Markets interpreted Powell's comments as a more dovish stance, with other fed officials speaking to media enforcing that outlook. While commentary was certainly more dovish, Powell stressed the strength of the US economy and an expectation while growth may slow from 2018 rates, it should remain above potential GDP given tight labour markets. We now expect the Fed to hike rates somewhere between 0 and 2 times in 2019. We don't expect the Fed to move in Q1 and it will remain data dependant. Strong inflation induced by tariffs or the labour market continuing to tighten will support further rate hikes.

On trade, Monday sees US officials in China for trade talks. Early reports from Beijing indicate talks were positive and constructive. While White House economic adviser Larry Kudlow told Bloomberg preliminary discussions were "a little more optimistic than usual," President Xi's top economic advisor, Vice Premier Liu He, attended meetings but the talks were led by lower ranking trade officials on both sides. U.S. Trade Representative Robert Lighthizer is expected to meet with Liu later this month. Slowing Chinese economic data should keep pressure on Chinese delegates to make a deal, while Corporate America citing trade issues for declining profits as Apple did last week will insure the US is eager to make a deal.

Brexit will return to the headlines this week as the UK parliament returns from its Christmas Break. MPs are set to vote on the Mrs May's Brexit deal early next week. Mrs May has been steadfast in her argument that this is the only deal on the table, while the opposition and the Brexiters continue to propose a better deal. Mrs May has warned the UK faces "uncharted territory" if Parliament rejects her Brexit deal as she vowed to redouble her efforts to win MPs over. And as rumours build that Mrs May intends to postpone the meaningful vote in parliament for a second time, she vowed that next week's vote would "definitely" go ahead. We retain an optimistic outlook that Brexit will be resolved in 2019, acting as a tailwind for the broader and more domestically focused UK indices. However, it is difficult to see a victory for Mrs May in next week's vote.

On the economic data front we have a number of events. Wednesday sees the release of December's FOMC meeting minutes. While these maybe somewhat out of date post Friday's AEA conference, the market will be keen to get a more detailed look at the committee's outlook. Similarly on Thursday, the ECB release its monetary policy accounts. There will be a Canadian interest rate decision on Wednesday, which will be interesting in the context of a more dovish Fed. European retail sales data on Monday will give investors an insight into the European consumer with sentiment and confidence indicators on Tuesday all contributing to the European outlook. There is US housing data on Thursday, which has been the weakest area of the US economy. While US inflation data is out on Friday. Finally, there is a UK GDP read on Friday ahead of the Brexit vote the following week.

Major Markets Last Week

	Value	Change	% Move
Dow	23433	294.34	1.27%
S&P	2532	43.11	1.73%
Nasdaq	6739	159.37	2.42%

UK Index	6815	81.11	1.20%
DAX	10740	358.45	3.45%
ISEQ	5649	189.30	3.47%

Nikkei	20039	883.23	4.61%
H.Seng	25836	331.50	1.30%
STOXX600	342	6.13	1.82%

Brent Oil	58.24	6.04	11.57%
Crude Oil	48.82	3.49	7.70%
Gold	1291	8.36	0.65%

Silver	15.7886	0.29	1.89%
Copper	265.05	-3.10	-1.16%
CRB Index	412.94	4.29	1.05%

Euro/USD	1.1446	0.00	-0.18%
Euro/GBP	0.8985	0.00	-0.05%
GBP/USD	1.2739	0.00	-0.12%

	Value	Change
German 10 Year	0.195	-0.05
UK 10 Year	1.239	-0.04
US 10 Year	2.6428	-0.04

Irish 10 Year	0.926	0.02
Spain 10 Year	1.466	0.05
Italy 10 Year	2.888	0.15

BoE	0.75	0.00
ECB	0.00	0.00
Fed	2.50	0.00

All data sourced from Bloomberg

Opportunities this week

CFI Research Team

Tech

Closing Price: \$101.93



Key Metrics	2018e	2019e	2020e
Revenue (\$'Mn)	125008	137743	152711
EPS (\$)	4.46	5.04	5.96
Price/ Earnings	22.84x	20.23x	17.09x
Div Yield	1.78%	1.94%	2.14%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
MSFT US	-3.85%	-8.69%	0.59%

Source: All data & charts from Bloomberg & CFI

- Technology suffered significantly in the final quarter of last year as fears over global growth, trade and monetary policy weighed on investor sentiment.
- Despite economic data rolling over, financial conditions, earnings outlook and monetary policy remain supportive (albeit on a lower scale).
- US-China trade progress will be key for the sector, with a the need for a resolution growing on both sides a positive resolution is looking increasingly likely.
- From both a short and longer term perspective we remain positive on cloud based tech providers whose valuations are looking increasingly attractive.

Microsoft

- On the back of accelerating profits from Office and Azure, Microsoft is expected to grow by 15.4% on average over the next three years.
- Trading at a 12m forward P/E 20.5x (20% discount to its 5 year PEG).

SAP

- Cloud is expected to grow by +25% organically for the next four years.
- Despite earnings expected to grow by 12% on average over the next three years it has a 12m forward P/E 17.5x (5% discount to 5 year average).
- 5 year RSI of 35 indicates it is verging on oversold.

Amazon

- Avg earnings are expected to grow c.34% yoy for 3 years.

CRH

Closing Price: €24.07



Key Metrics	2018e	2019e	2020e
Revenue (€'Mn)	26625.9	28222.7	29491.5
EPS (€)	1.78	2.11	2.38
Price/ Earnings	13.38x	11.32x	10.05x
Div Yield	2.96%	3.11%	3.31%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
CRH ID	-3.53%	-16.10%	4.20%

Source: All data & charts from Bloomberg & CFI

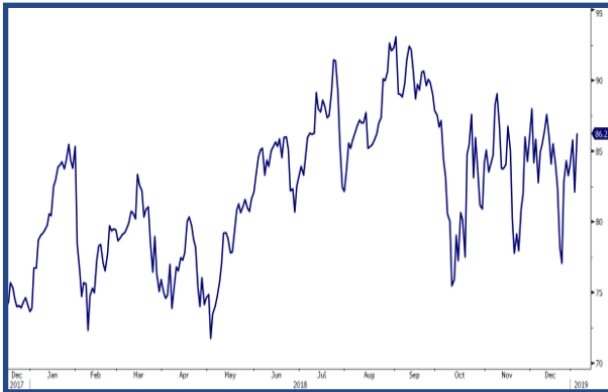
- CRH recent price action has been poor down c. 16% in the final quarter of 2018
 - General risk off sentiment has dragged markets lower and cyclical sectors, like materials, have sold off more than the wider market
 - Concerns for global growth as economic data begins to weaken and trade tensions continue to weigh
 - Brexit concerns weigh across Irish listed names
- US business remains market leader in Asphalt, Aggregates and Concrete Products
 - Longer term investment case remains regarding the required spend on maintaining and replacing US infrastructure supporting growth in the Americas Materials division (c. 32% of revenues)
 - US infrastructure spending required if politicians can agree projects
 - Lower energy costs to support margin expansion
- European business (c. 49% of revenues) performing well and benefiting from scale across the region
- New Global Products division (combination European Lightside, European Distribution and the Americas Distribution) to produce operating efficiency
- Scope (c. €7bn) for additional M&A and/or return capital to investors
 - €100 in structural cost savings
 - €300 million share buyback commenced in November
- Valuation multiples have fallen to 2011 levels offering an excellent entry point for a quality name.

Opportunities this week

CFI Research Team

PayPal Holdings

Closing Price: \$86.27



- PayPal is a market leader in the online payments sector. From a structure perspective we like this sector as society increasingly become cashless and consumers increase spending through online platforms.
- PayPal have made a number of acquisitions, including iZettle, Hyperwallet and Simility, expanding its offering and payments capability.
- Partnerships with Apple, Visa, JPM and Baidu ensure that the platform is becoming the online payment method of choice. New partnerships with Walmart and American Express continue to grow the user base.
- The wider US technology sector has sold off on global growth and trade fears, which has weighed heavily on recent performance.
- Progress on trade relations should provide the market and companies with confidence to regain momentum.
- The payment space is a highly innovative arena leaving incumbents vulnerable to new entrants
- PayPal offers c. 15% revenue growth, with earnings growth outstripping revenue closer to 20% over the next three years
- Continues to beat market expectations and upgrade earnings outlook on a strong mix of M&A and organic growth.
- Valuations have retracted with multiples retracing 25% from 2018 highs.
- Current consensus price target is \$99.12, offering c. 17% upside.

Key Metrics	2018e	2019e	2020e
Revenue (\$Mn)	15464.5	18022.9	21203.6
EPS (\$)	2.40	2.89	3.49
Price/ Earnings	36x	29.9x	24.75x
Div Yield	0.00%	0.02%	0.00%

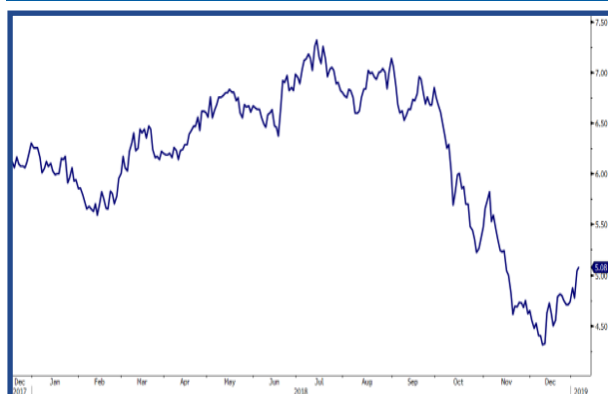
Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
PYPL US	-1.94%	-1.01%	2.59%

Source: All data & charts from Bloomberg & CFI

Dalata Hotel Group

Closing Price: €5.04



- Irish companies that have significant exposure to both the UK and the UK consumer have seen their shares sold off on concern that a “Hard Brexit” would have a significant negative impact on business
- Post an ECJ opinion on the UK revoking article 50, consensus is building that a “Hard Brexit” will likely be avoided. Given that a “Hard Brexit” was partially priced in, any orderly outcome would be considered positive for UK exposed companies
- Although Dalata Hotel Group generates 20% of revenue from the UK and managements growth plan is UK focused, the company still generates a significant amount of cash flow from its core Irish business
- Irish business consists of c.6,000 rooms of which 4,200 are in Dublin. Multinational companies such as Google, Facebook etc are significant customers for Dalata often block booking rooms throughout the year for employees
- Company strategy is to leverage of JV arrangements with landlords (Deka, M&G etc) and invest in leasehold arrangements throughout the UK’s top 20 cities. By focusing on leasehold arrangements, shareholders should benefit from a higher return on investment in future
- Dalata’s c.20% earnings growth in 2019 will be driven by the addition of hotel rooms that have already opened in Q4 2018
- Dalata currently trades with an EV/room of c.€140k versus recent market transactions above €300k per room. Further to this, Dalata trades on 11x 2019 earnings and 1.1x book value and offers a 2% dividend yield. Dalata shares have dropped from over €7 to €5

Key Metrics	2018e	2019e	2020e
Revenue (€Mn)	388.5	439.0	443.5
EPS (€)	0.40	0.45	0.47
Price/ Earnings	12.7x	11.28x	10.92x
Div Yield	1.93%	2.22%	2.32%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
DHG ID	10.65%	-23.75%	6.44%

Source: All data & charts from Bloomberg & CFI

All data taken from Bloomberg up until 14/12/2018.

Warning : Past performance is not a reliable guide to future performance

Warning : The value of your investment may go down as well as up.

*Red Denotes Deletions

*Green Denotes Additions

*Yields are based on the mean of analyst forecast

From the News - Monday's Headlines

- **Global** US-China trade talks buoy stocks
- **US** Powell stokes market rally with promise of 'patience' on rate rises
- **Europe** German Factory Orders Slip as Euro-Area Demand Deteriorates
- **UK** May Fights for Brexit Deal, Warns of Second Referendum Risk
- **Ireland** Ibec predicts slowdown in growth as economy hits full capacity

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	Corporate	Corporate	Corporate	Corporate
N/A	N/A	Sainsbury Taylor Wimpey Constellation Brands	Tesco M&S Delta Airlines	Vinci
Economic	Economic	Economic	Economic	Economic
JP Services PMI EA Retail Sales US Factory Orders US ISM Non Manufacturing	UK House Price EA Confidence & Sentiment	DE BOP	US New Homes	UK GDP US Inflation

Upcoming Events

14/01/2019 CitiGroup

15/01/2019 Total, Permission, UnitedHealth Group, JP Morgan, Wells Fargo

16/01/2019 Tullow, Kinder Morgan, Blackrock, Bank of America, Goldman Sachs,

17/01/2019 Morgan Stanley, American Express, Netflix,

18/01/2019 Rio Tinto, Schlumberger

14/01/2019 EA Industrial Production

15/01/2019 FR Inflation, US PPI

16/01/2019 DE Inflation, UK PPI & Inflation, US Retail Sales

17/01/2019 EA Inflation, US Housing Starts

18/01/2019 UK Retail Sales, US Industrial Production

All data sourced from Bloomberg

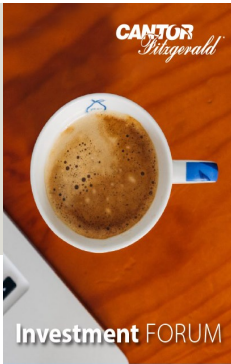
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Bank of Ireland: Bank of Ireland provides a range of banking, life insurance and other financial services to customers in Ireland and United Kingdom

AIB: Allied Irish Banks plc (AIB) attracts deposits and offers commercial banking services.

Inditex: Industria de Diseno Textil, S.A. designs, manufactures and distributes apparel. The company operates retail chains in Europe, the Americas, Asia and Africa.

Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

Siemens: Siemens AG is an engineering and manufacturing company. The Company focuses on four major business sectors including infrastructure and cities, healthcare, industry and energy.

Lloyds: Lloyds offers a range of banking and financial services including retail banking, mortgages, pensions, asset management, insurance services, corporate banking and treasury services.

Allianz: Allianz, through its subsidiaries, provides insurance and financial services.

Facebook: Facebook Inc. operates a social networking site.

PayPal: PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants.

Alphabet: Alphabet provides web based search, advertisement, maps, software applications, mobile operating systems, consumer content and other software services.

Amazon: Amazon is an online retailer that offers a wide range of products.

Smurfit Kappa: Smurfit Kappa manufactures paper packaging products.

CRH: CRH is a global building materials group.

Kingspan: Kingspan is a global market player in high performance insulation and building envelope technologies.

DCC: DCC is a sales, marketing, distribution and business support services company.

GlaxoSmithKline: GSK is a research based pharmaceutical company.

Glanbia: Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

Microsoft: Microsoft Corporation develops, manufactures, licenses, sells, and supports software products.

Amazon: Amazon is an online retailer that offers a wide range of products.

SAP: SAP is a software corporation that makes enterprise software

CRH: CRH is a global building materials group

PayPal: PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants

Dalata Hotel Group: Dalata Hotel Group owns and operates as a chain of hotels.

None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.

Microsoft: We have had an Outperform rating on Microsoft since 12/01/2018

Amazon: We have an Outperform recommendation for Amazon since 26/07/13, and no changes have been made since then.

SAP: We have changed our outlook on SAP to "Outperform" from "Market Perform" as of 20/07/2017

CRH: We have added CRH to our core portfolio on the 01/01/16, with a recommendation of Outperform

PayPal: We added PayPal to our Core Portfolio on the 20/07/15 and have an Outperform outlook on the stock

Dalata Hotel Group: We initiated an Outperform rating on Dalata on the 21/11/2018



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