Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 06th February 2019

Morning Round Up

Trump vows to build wall, warns Democrats against investigations
President Donald Trump vowed in his State of the Union speech on Tuesday to build a border wall, which is a source of a deep partisan divide, and said Democratic attempts at "ridiculous partisan investigations" could damage US prosperity. Trump spoke to a joint session of the US Congress facing political discord over his demands that Democrats end their opposition to funding for a US-Mexico border wall he says is needed to stem illegal immigration and smuggled drugs. During his 82-minute speech, he outlined his political priorities without providing specific policy details. Trump called illegal immigration "an urgent national crisis," but stopped short of declaring a border emergency that would allow him to bypass Congress for wall funding. Instead, he urged Democrats and Republicans to find a compromise by a February 15 deadline. Trump warned, without offering evidence, that Democratic efforts to investigate his administration, along with the possibility of US involvement in wars abroad, would endanger the US economy. His remarks came as Democrats who now control the House planned a series of probes into the Trump administration and his personal finances, while Special Prosecutor Robert Mueller investigates Russian meddling in the 2016 Presidential election and possible collusion between the Trump campaign and Moscow. Russia denies meddling and Trump has said there was no collusion.

European Banks post mixed results
The European banking sector has suffered a significant derating over the past 12 months as investor expectations of higher rates diminished, weaker economic growth and political volatility across the region. We have reducing our exposure to the European Banking sector, however, within our exposure we retain a preference for Northern European retail banks. The Irish Banks continue to be marred by both sentiment and Brexit. We retain our Outperform rating and see some Brexit clarity and FY18 results as a catalyst for both AIB and Bank of Ireland. Yesterday, saw Intesa Sanpaolo beat on earnings with Q4 net income of €1.04bn (est. €1.01), while revenue missed estimates. Guidance saw FY19 net profits higher than FY18 and the bank was on track to deliver its targets. Nordea also reported this morning with Q4 net income missing estimates at €492mln (est. €519.3mln) but increased its dividend. Management's outlook guided for a lower cost base in FY19 and sustainable lower net loan losses. Management also commented on margin pressure in household lending and muted loan growth. Finally, BNP reported Q4 numbers, with revenue missing estimates at €10.16bn (est. €10.26bn). Investment banking results were poor but offset by strength in its retail franchise. Capital levels and dividends were both positive.

ING post strong results
ING Group reported Q4/FY 2018 financial results which were better than expected driven by net interest income, fee income and tighter cost control. The group reported a 6.4% increase in net core lending growth, an 8.7% underlying increase in net income to €5.4bn and its adjusted return on equity increased to 11.2%. ING's cost/income ratio declined to 49.5% and its CET 1 ratio was 14.5%. FY 2018 dividend was raised from €0.67 to €0.68 with a 4% final dividend due in March. ING's focus on retail and wholesale banking has resulted in a stronger result relative to peer banks with investment banking divisions. At 0.8x book value and trading with a 6.5% dividend yield, we see upside as the bank is positioned for a cleaner result in FY 2019. Sell side consensus values its shares at €14 implying 30% upside.

Higher investment costs weigh on Daimler's EBIT
Daimler reported a 22% fall in its FY 2018 EBIT results despite a 2.4% increase in unit sales (€167bn revenue). Dividend was lowered by 11% to €3.25. EBIT was negatively impacted by new WLTP regulations, higher raw material costs and increased investment in new technologies. Guidance is for modest growth as investment costs remain elevated. Daimler trades on 6.3x earnings and 0.76x book value with a 6.5% dividend yield.

Source: Bloomberg, CF Research February 2019

Key Upcoming Events

07/02/2019 Bank of England

Market View

US markets grinded higher yesterday as optimism sets in regarding trade. Asia remained muted as many markets are closed for the Lunar New Year. Europe has opened lower this morning on weak German factory orders. Futures point to a negative open in the US this afternoon. The market will be focusing on the UK today, with Theresa May in Northern Ireland and set to travel to Brussels tomorrow. In conjunction, the Bank of England are meeting on Thursday. In the US, markets will be watching the fallout from President Trump's State of the Union address. On the data front, we have some US trade data from November this afternoon.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25412	172.15	0.68%	8.93%
S&P	2738	12.83	0.47%	9.21%
Nasdaq	7402	54.55	0.74%	11.56%
Nikkei	20874	29.61	0.14%	4.29%
Hang Seng	27990	59.47	0.21%	8.30%
Brent Oil	61.6	-0.38	-0.61%	14.50%
WTI Oil	53.24	-0.42	-0.78%	17.24%
Gold	1314	-1.56	-0.12%	2.44%
€/$	1.1392	0.00	-0.12%	-0.65%
€/£	0.8785	0.00	-0.28%	-2.28%
£/$	1.2968	0.00	0.18%	1.68%

	Yield	Change
German 10 Year	0.165	-0.01
UK 10 Year	1.23	0.00
US 10 Year	2.6839	-0.01
Irish 10 Year	0.895	-0.01
Spain 10 Year	1.251	-0.01
Italy 10 Year	2.82	0.0240

Source: Bloomberg, CF Research February 2019

Vinci - Robust growth despite difficult Q4 in France Closing Price: €78.02

News

Vinci released a positive set of full year results this morning. Despite social unrest in France in Q4, FY18 figures came in line with market estimates and FY19 outlook was positive. Revenues grew by 8.89% over the year to €43.516bn, above consensus expectations of €43.135bn. Net Income grew by 9.09% to €2.986bn, slightly below expectations of €2.998bn. EPS grew by 8.89% to €5.325, above expectations of €5.302. Cash flow generation was notably strong rising by 26% to €3.2bn. The EBITDA margin increase from 15.8% to 15.9%. The proposed dividend for FY18 is €2.67 per share, up 9% yoy. Consolidated net debt increased by €1.6bn to €15.6bn (2.26x EBITDA) as a result of investments during the year.,

Looking at the two underlying divisions, Concessions (62% of group net income) grew by 4.6% as passenger numbers increased by 4.6% in Airports, however, Autoroutes fell by -0.5% due to the social unrest ("yellow vest" protests) in France in Q4 (-9% traffic). Contracting (29% of the group) performed well growing by 9%. Energies and Eurovia were particularly impressive growing by 17.1% and 10.1% respectively.

Management maintained a broad but positive outlook for FY19. It expects "further growth" in net income and revenue. Passenger numbers at VINCI Airports should, on a constant structure basis, continue to rise, although at a slower pace than in 2018 because of the high base for comparison. London Gatwick Airport should become part of the Group in the second quarter. Autoroutes traffic levels should track economic activity in France. Contracting possess a strong order book into next year. It will also benefit from acquisitions and an improving margin.

Comment

A positive set of results from Vinci despite Q4 challenges. Growth continues across the business, cash flow was notably strong and guidance was again positive. We expect management to reference the rejection of Aeroports de Paris privatisation by the French senate on the call today. This is of course a negative for Vinci who have been analysing its potential acquisition for some time. However, we expect robust growth regardless for the coming years. The Gatwick acquisition was another solid move by management, bringing a total of 45 airports under its portfolio. We continue to like Vinci and advise clients to pick up the stock despite the strong rise already this year. Its attractive defensive growth attributes, diversified business structure, strong free cash flow and solid growth trajectory (10.5% yoy growth expected), should ensure the stock continues to rise over the next 12 months. We maintain an Outperform rating.

David Fahy, CFA | Investment Analyst

FBD Holdings - 28% upside to our 12 month fair value

Closing Price: €8.16

News

FBD shares have retraced back to €8.20, from a high of €12.20 recorded in March 2018. The potential conversion of Fairfax debt into shares has been an overhang through H2 2018 but the convertible bond has since been refinanced via company cash reserves and a bond issued at a much lower interest rate (c.5%).

To recap, FBD has a leading market share in Agri insurance and also competes for SME and motor insurance business. Established 50 years ago, it was set up by farmers for farmers. The business has been restructured under current CEO, Fiona Muldoon who has lowered the groups expense ratio, invested in technology, increased solvency by selling non-core assets and raising new capital (Fairfax bond), closed down unprofitable business lines and repriced risk. To date, Fiona's approach has delivered as expected.

Since 2013, industry products have been repriced via premium increases. A government working group has been established to address a number of recommendations with a focus on bringing down the cost of claims (FBD's loss ratio). The government is updating quarterly and we expect progress through time will benefit both consumers and FBD.

FBD has 400,000 policies on its books, down from a high of 500,000 in earlier this decade, as management decided not to renew unprofitable policies. In H1 2018, FBD reported a return to growth in gross written premium which could indicate that management's focus can partially return to business growth rather than a complete focus on risk management. Drivers of growth include a JV with An Post and new branches in Dublin were FBD are underrepresented.

Comment

FBD reported profit before tax growth of 55% in H1 2018 and its net asset value increased by 16% to €8. Group combined ratio of 88.6% is trending lower than company targets of c.90-93%.

Consensus expects earnings to fall in 2019, despite very strong growth in H1 2018, driven by tough comps in 2017 due to reserve releases. We think investors are not appreciating the interest savings and lack of dilution from the convertible buyback which should help spur on earnings growth in FY 2019.

Despite consensus valuing the shares FBD shares at €12.60, we are more conservative and set a price target of €10.70 which would imply 28% upside over 12 months. Our target price is predicated on net asset value growing to €8.50 by year end and set a valuation multiple at 1.25x book value. FBD has a dividend policy of paying out 20%-50% which should see its dividend yield ramp up in 2019.

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Darren McKinley, CFA | Senior Equity Analyst

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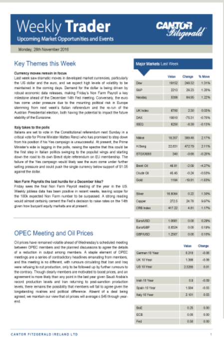

Weekly Trader

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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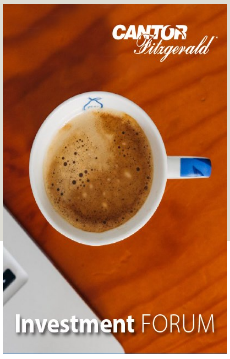

Investment Forum

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)
VINCI SA: VINCI is a global player in concessions and construction with expertise in building, civil, hydraulic, and electrical engineering
FBD Holdings: FBD Holdings plc is primarily involved in insurance underwriting

Historical Recommendation:
Vinci: Vinci Sa is a member of our core portfolio and we have an Outperform rating on the stock since 25/08/2017
FBD Holdings: We moved FBD from Market Perform to Outperform on the 6th December 2016.

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