

Thursday, 07^h February 2019

Morning Round Up

GDP forecasters need to lower their sights

Global economic growth forecasts are drifting downward. The errors are not really surprising. Changes to the International Monetary Fund's predictions are typical. In April 2018, the international lender expected the world economy to grow 3.9% in 2019. By January this year, its forecast had fallen to 3.5%. The IMF blames trade tensions and tightening financial conditions for this year's lost output, worth roughly \$350bn. Berenberg Economics is worried about a "cocktail of risks", including US and British political gridlock, populist governments' bad economic policies and "a potential drop in US confidence". And everyone is fretting about a Chinese slowdown. But these can only be part of the explanation. Financial conditions were widely expected to tighten, trade tensions and "Brexit" have been bubbling for some time, and populist governments mostly seem keen on fiscal stimulus, which tends to push up economic activity in the short-term. Falling confidence sounds more like an excuse than an explanation. More likely, forecasters' models are poorly calibrated to bigger trends in the global economy. GDP is a measure that misses many improvements in the quality of life. It was designed to count up traditional industrial production – cars, cement and other stuff that comes out of big factories. It is too crude to capture many of the gains created by information and communication technologies, reductions in pollution and improvements in health. In developed economies, striving for these more intangible life-enhancements account for a big portion of new economic activity. GDP is out of touch.

Vestas Wind Systems reports mixed results

Vestas reported operating performance that missed consensus analyst estimates this morning. FY revenue came in at €10.1bn (est. €10.21bn) and EBIT before significant items was €959m (est. €1.01bn). Marginally weaker operating numbers led to a lower than expected dividend of DKK7.44 (est. DKK8.69). The company grew turbine orders by 27% from 11.2GW in FY17 to 14.2GW in FY18. Management guided for €10.75bn to €12.25bn in revenue in FY19 with continued strong growth in orders. However, management noted that EBIT margin is expected to be tighter as competitive auction processes are applying pressure on pricing. Management are expecting +8% to +10% FY EBIT margin, down for FY18 margin of 9.5%.

UniCredit posts good results

UniCredit moved higher yesterday ahead of results this morning that beat expectations. Revenues came in as expected at €4.86bn (est. €4.87bn) with net interest income performing marginally better than expected contributing €2.78bn (est. €2.76bn) in revenue. Q4 adjusted net income was particularly strong at €840m (est. €693.5m) up 20% from a year previous. Q4 results lead UniCredit to its strongest full year performance since 2008 before taking a write-down on Turkish exposure and a provision for US sanction violations.

Zurich posts good results but dividend lower than expected

Zurich full year performance was strong as confirmed by this morning's announcement. Operating profit and net income both beat expectations at \$4.57bn (est. \$4.47bn) and \$3.72bn (est. \$3.40bn) respectively. The property and casualty (P&C) segment posted gross written premium (GWP) of \$33.51bn and a combined operating ratio (COR) of 97.8%. While, the life segment wrote \$33.45bn in GWP. The dividend was a source of some disappointment missing expectations at CHF19 (est. CHF19.20)

TUI drops after warning

TUI has fallen 15% this morning following managements downgrade to guidance for 2019 from 10% EPS growth to flat. The downgrade has stemmed from the tour operating unit of the business with holiday experiences remaining robust. The tour operating unit continues to struggle in what is a secularly declining sector.

Source: Bloomberg, CF Research February 2019

Key Upcoming Events

07/02/2019 Bank of England

Market View

US markets finished lower yesterday as the January rally looks for fresh optimism to drive it higher. Asian markets continue to be muted, with Japan weaker despite Soft Bank announcing its largest buyback. Europe has opened lower this morning, while futures are pointing to a weaker open in the US later today. Markets will be watching Mrs May today as she makes her way to Brussels to renegotiate the UK's Withdrawal Agreement. The BOE also meets today with no expectation of a change to policy, however, outlook and Brexit commentary will be watched. Finally, the EC release its economic forecast with downgrades across the region expected.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25390	-21.22	-0.08%	8.84%
S&P	2732	-6.09	-0.22%	8.97%
Nasdaq	7375	-26.80	-0.36%	11.15%

Nikkei	20751	-122.78	-0.59%	3.68%
Hang Seng	27990	59.47	0.21%	8.30%

Brent Oil	62.46	-0.23	-0.37%	16.10%
WTI Oil	53.87	-0.14	-0.26%	18.63%
Gold	1304	-2.26	-0.17%	1.70%

€/\$	1.1347	0.00	-0.13%	-1.05%
€/£	0.8790	0.00	0.04%	-2.22%
£/\$	1.2909	0.00	-0.18%	1.22%

	Yield	Change
German 10 Year	0.162	0.00
UK 10 Year	1.209	-0.01
US 10 Year	2.6877	-0.01

Irish 10 Year	0.901	0.00
Spain 10 Year	1.258	0.00
Italy 10 Year	2.88	0.0180

Source: Bloomberg, CF Research February 2019

GlaxoSmithKline - Negative guidance but in line with expectations

Closing Price: £15.48

News

GlaxoSmithKline released a broadly positive set of results yesterday afternoon as FY18 beat estimates and guidance (albeit negative) was in line with expectations. Revenue grew by 2.1% yoy to £30.82bn, above consensus forecasts of £30.52bn. EBITDA grew by 2.32% to £10.51. EPS grew by 6.8% to £1.19, above estimates of £1.15. Management expects EPS to decline by between 5% - 9% in FY19, roughly in line with what the market had been expecting (-7%). The negative guidance reflects the recent approval of a generic substitute for [Advair](#) in the US and the expected impact of the [Tesaro acquisition](#). Dividend policy is expected to be maintained for 2019 at 80p per share.

Looking at the underlying segments. Pharmaceuticals were stronger than expected growing by 2% (constant currency (cc)), driven by stronger growth in HIV sales and the new respiratory products Nucala and Ellipta. Growth was offset by lower sales in Advair and Established Pharmaceuticals. Vaccines grew by 16%cc primarily driven by strong Shingrix sales in the US and growth in influenza and Hepatitis vaccines. Consumer Healthcare sales grew by 2%cc with broad based growth in Oral Health and Wellness.

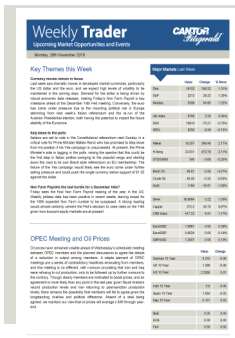
Management gave an update on pipeline developments in the release, notably the recent deal for Merck KGaA's bifunctional PD-L1+TGFB, another addition to the oncology pipeline. It also noted the potential for the recently acquired Tesaro. It also cited some key data on potential products this year.

Comment

A solid release, with guidance for 2019 coming in as the market expected. There was notable focus on restructuring, R&D spend and the latest deals. With the generic Advair now approved in the US, Glaxo will need to see the benefits of the pipeline investment come to fruition this year. Otherwise they may be facing into a difficult 2020. There are a number of important late stage readings on potential products in 2019, should they deliver it is likely to rerate on future earnings growth potential. We maintain our Market Perform rating. Should we see some favourable outputs from the late phase trials we likely upgrade our outlook.

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.

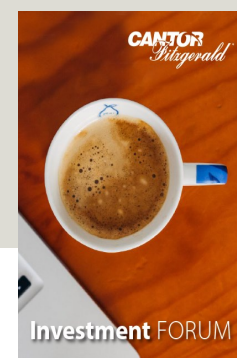
[Click Here](#)



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.

[Click Here](#)



Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

[Click here](#)

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

GlaxoSmithKline: GSK is a research based pharmaceutical company.

Historical Recommendation:

GlaxoSmithKline: We moved our rating from Outperform to Market Perform on the 26/10/2017 .

http://www.cantorfitzgerald.ie/research_disclosures.php

This material is approved for distribution in Ireland by Cantor Fitzgerald Ireland Ltd. It is intended for Irish retail clients only and is not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. Cantor Fitzgerald Ireland Ltd ("CFIL") is regulated by the Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Where CFIL wishes to make this and other Cantor Fitzgerald research available to Retail clients, such information is provided without liability and in accordance with our terms and conditions that are available on the CFIL website.

No report is intended to and does not constitute a personal recommendation or investment advice nor does it provide the sole basis for any evaluation of the securities that may be the subject matter of the report. Specifically, the information contained in this report should not be taken as an offer or solicitation of investment advice, or to encourage the purchase or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommends that specific advice should always be sought prior to investment, based on the particular circumstances of the investor either from your CFIL investment adviser or another investment adviser.

CFIL takes all responsibility to ensure that reasonable efforts are made to present accurate information but CFIL gives no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. This is entirely at the risk of the recipient of the report. Nor shall CFIL, its subsidiaries, affiliates or parent company or any of their employees, directors or agents, be liable for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this research note constitute CANTOR IRELAND's judgment as of the date of the note but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this research note has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse effect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment.

[Conflicts of Interest & Share Ownership Policy](#)

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising from other CANTOR IRELAND business units including Fund Management and Stock broking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, CANTOR IRELAND is satisfied that the objectivity of views and recommendations contained in this note has not been compromised. Nonetheless CANTOR IRELAND is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this research note, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research note.

We have assessed the publication and have classed it as Research under MIFID II. All charges in relation to this publication will be borne by Cantor



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