Daily Note
Views, news and topics from today's markets

CANTOR Fitzgerald

Thursday, 21st February 2019

Morning Round Up

"Brexit" paints go-slower stripe on UK car industry
It's too early to say whether Britain's car industry is in terminal decline. Plant closures like Honda's in Swindon are more about idiosyncratic corporate strategy than UK competitiveness. Yet Britain still needs global carmakers to commit to electric-car manufacturing. "Brexit" will act as a huge deterrent. Brits may be surprised to learn that the country's 186,000 auto workers are more productive than their famed German peers. The UK produced about 1.6 million cars and trucks last year, or 8.6 per employee. That's a fall from almost 11 in 2016, but still above Germany's equivalent figure of around seven in recent years. Honda's Swindon plant, which employs about 3,500 people, is unusual: the Japanese group's operations are subscale in a competitive European market, and the site operates at about 64% of its capacity. The industry rule of thumb is that plants break even only at 80% utilisation. Like compatriot Nissan, which reneged on a 2016 pledge to build a new model in its Sunderland plant, Honda's move was enabled by a recent trade deal between Japan and Europe, which will remove tariffs and allow them to ship cars from home. Workers in Britain's 33 other car plants are watching for signs that their owners will build the next generation of electric vehicles in Britain. The signs so far are disconcerting. Inward auto investment in areas like new production capacity halved in 2018 to £589m, using SMMT data. Uncertainty over Britain's future trading relationship with Europe was a big factor, since over half of UK-assembled cars are shipped to the continent. And a "post-Brexit" immigration crackdown will also make it harder to find skilled workers, something the UK car industry already struggles with judging by the sector's 5,000 unfilled vacancies. Meanwhile, UK automotive research and development spending of less than £4bn a year is much smaller than France's £5bn and Germany's £19bn, which means Britain is starting from behind. Automotive employment may decline whatever happens, since an electric battery factory requires about one-fifth of the workforce compared with an engine plant, according to the head of Germany's IG Metall union. But "Brexit" gives the UK's car industry a go-slower stripe its workers will hardly appreciate.

Barclays release prompts share buyback expectation
Barclays released results this morning that came in line with expectation with a positive surprise on capital resulting in the stock opening up 3.5%. Revenue Was £21.1bn (est. £21.0bn), while cost came in higher than expectation with a cost income ratio of 77% due to a £2.2bn litigation and conduct charge. Capital surprised to the upside with a CET1 ratio of 13.2% (est. 12.9%). An improved capital position and managements indication that share buybacks are under consideration have spurred investors. Performance of Barclays International (which houses its investment banking arm) was better than its European peers which will assuage some investor fears and give CEO, Jes Staley, some breathing room from activist investors. Barclays UK performed in line but still retains a high cost base. Management are targeting a 9% return on equity in FY19, which lags its retail peers.

Ryanair's Belgium pilots vote in favour of CLA
Ryanair's Belgium pilots have voted in favour of a collective labour agreement . The vote, which passed by a 98% majority, is another positive step as it works on rolling out CLA's across its markets. Separately, following the recent Q3/19 results we have reduced our price target on Ryanair to €14. The reduction is a result of unfavourable oil hedging for FY20. However, we are quite positive going into FY20 (which begins in April) as numerous headwinds (sector capacity growth, rising unit costs, industrial relations) subside. Should we see a continuation of ancillary growth and fares bottoming (as we expect they will), this price target will likely be revised up. We will have further information at full year results in May. However, with the March deadline approaching, we continue to advise clients to be cautious in increasing exposure to Irish, UK and European names that are exposed to Brexit risk.

Source: Bloomberg, CF Research February 2019

Key Upcoming Events

21/02/2019 US & European PMI
22/02/2019 Mario Draghi to speak in Italy

Market View

European stock markets are broadly flat this morning despite some strength from Asian markets overnight. Trade progress continues to drive positive momentum for risks assets. The minutes from the January's FOMC meeting were mixed as it signalled a pause to the balance sheet run down while also signalling a rate increase may be on the table should growth evolve as expected. The ECB's meeting minutes will be released today. Elsewhere oil has pushed to three month highs on supply cuts and positive trade tones. There is a slew of data out today including European PMI, US PMI and inflation in Germany, France and Italy

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25954	63.12	0.24%	11.26%
S&P	2785	4.94	0.18%	11.08%
Nasdaq	7489	2.30	0.03%	12.87%
Nikkei	21464	32.74	0.15%	7.24%
Hang Seng	28630	115.87	0.41%	10.77%
Brent Oil	66.99	-0.09	-0.13%	24.52%
WTI Oil	57.13	-0.03	-0.05%	25.81%
Gold	1333	-5.24	-0.39%	3.95%
€/$	1.1326	0.00	-0.11%	-1.23%
€/£	0.8672	0.00	-0.17%	-3.53%
£/$	1.306	0.00	0.08%	2.40%

	Yield	Change
German 10 Year	0.11	0.01
UK 10 Year	1.194	0.01
US 10 Year	2.6572	0.01
Irish 10 Year	0.837	0.00
Spain 10 Year	1.189	-0.01
Italy 10 Year	2.84	-0.0180

Source: Bloomberg, CF Research February 2019

Total Produce - Lower our recommendation to "Under Review"

Closing Price: €1.87

News

Total produce shares have rallied up to €1.87 this morning, up 36% from lows recorded in December post a broad market sell off and management lowering FY 2018 guidance due to product pricing weakness and profit weakness at Dole due to an ongoing FDA industry lettuce concern. Total Produce shares had declined by 9% on the day when it lowered its guidance. Given managements common ability to guide conservatively and beat, investors were disappointed with the downgrade.

Since Total Produce lowered guidance in late November we have had two of their peers, Del Monte and Green yard, also report brutal Q4 results which led to both of these company shares declining by 15-20% over a short period in January/December. Del Monte reported a 9% decline in banana unit sales and a 7% increased in banana unit costs. Operating costs, namely logistics and distribution, were also highlighted as a headwind. Greenyard is expected to report the largest loss in 5 years this year due to “continued market pressure”. Del Monte also reported a loss in Q4 2018.

While we view the Dole transaction by Total Produce as extremely attractive long term, industry headwinds are weighing on Dole profits in the short term with the company reporting a significant decline in EBITDA during the nine month period reported in 2019 to date.

Comment

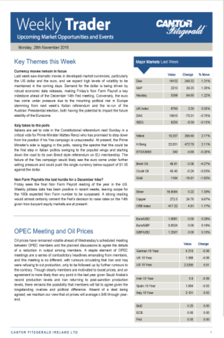
Total Produce shares have delivered our full year 2019 performance expectations in the first 7 weeks of 2019 by trading up to €1.87 this morning. Total Produce trades on 18x trailing earnings and on 1.6x book value. Further upside is dependent on a strong growth outlook which maybe temporarily facing some headwinds if its peers Q4 results have a read across.

We think Total Produce shares look fully valued in the short term and we wait further clarity on the industry outlook before getting optimistic on the medium-long term view.

Total Produce will release FY 2018 financial results on the 1st March with consensus expecting revenue to fall, gross margin to increase and like for like EBITDA growth. This is quite favourable relative to peers reporting gross margin pressure and significant falls in EBITDA. We do view Total Produce as a higher quality company.

Darren McKinley, CFA | Senior Equity 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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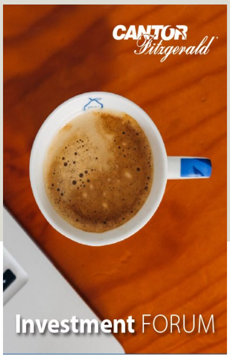

Investment Forum

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)

Total Produce: Total Produce markets and distributes a wide range of branded fresh produce to pan European and National retailers and wholesaler

Historical Recommendation:

Total Produce: Under Review as of 21/02/2019

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