Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 1st March 2019

Morning Round Up

US economy offers something for everyone

The US economy isn't quite allowing President Donald Trump a victory lap. But nor is it providing much fodder for critics. GDP growth slowed in the last quarter of 2018, still almost hitting the administration's 3% target for the full year. The President, the Federal Reserve and market watchers can all take what they want from that. A 2.6% pace of expansion in the final three months of last year topped the expectations of market economists. Growth was underpinned by consumer spending, the traditional mainstay of US economic activity, and – more surprisingly in a quarter beset by stock-market volatility – by business investment. Real GDP increased 2.9% for the year as a whole. Unfortunately for Trump, that merely matches the best annual performance under his predecessor, in 2015. He'll have to wait another year, at least, to top Barack Obama's record and claim economic vindication for the tax cuts that powered corporate earnings in 2018. Meanwhile, Jerome Powell's Fed, now in "*patient*" mode rather than eager to raise interest rates further, can see that stance reflected in the economy. Growth neither overheated nor slowed much in the most recent quarter and 2018 as a whole. The personal consumption expenditure price index rose 2% last year, right on the central bank's inflation target. All that said, two-thirds of this year's first quarter has already elapsed, including most of January with the government partially closed because of budget fights in Congress. The shutdown even delayed Thursday's GDP report. Economists expect it to dent economic growth this quarter, though the effect should largely reverse later. The bigger question is whether last year's tax-cut stimulus will stoke sustainably faster growth. There are also headwinds. Trump has lately de-escalated trade tensions with China, by delaying additional tariffs on imports and toning down his rhetoric. But risks to trade remain, even as the International Monetary Fund and others have downgraded forecasts for global growth.

There's also the possibility of further battles in Washington over federal spending and borrowing. The Goldilocks fourth-quarter GDP report offers something for everyone, including those who are still worried about this year's outlook.

William Hill FY18 results fail to impress

William Hill released its FY18 results this morning leading the stock to drop on open. Headline figures for last year came in broadly as expected. Net revenue grew by 2% to £1.62bn, in line with consensus. Both operating profit (£231.4m) and EPS (£0.204) came in slightly ahead. As previously guided there will be a non cash impairment of $882.8M to Retail following the Triennial Review (FOBT's). The Online business and the US business saw solid growth. Outlook for 2019 was in line with market expectations. Management guided for net debt to rise this year to 2x EBITDA (from 1x), due to higher investment and lower operating profits.

The bookmaker industry is continuing to suffer from heightened scrutiny and regulation in existing markets. While the US has significant growth potential, it remains too early gauge the size of that opportunity. We maintain our market perform rating on Paddy Power Betfair prior to its results next week.

US Health Insurers drop on "Medicare for All"

Health insurers in the US have dropped by 7% over the last two days after a number of "progressive" Democrats called for a "Medicare for All" bill which would significantly impact insurers revenues. However such legislation has little chance of becoming law given its lack of support on the democrats side and virtually zero support from the republican side, who control the senate. Healthcare reform in the US is at a standstill as both political parties in the US pull in opposite directions. We advise clients use this weakness to add exposure to UnitedHealth Group.

Source: Bloomberg, CF Research February 2019

Key Upcoming Events

07/03/2019 ECB Meeting
08/03/2019 US Non Farm Payrolls

Market View

Markets have opened strongly this morning. Risk assets have been supported by a pick up in economic data over the past two days. US GDP, US Chicago PMI, German Inflation, German Retail Sales and the China Caixan PMI have all come in ahead of consensus and showed a pick up in growth. Another positive for EM was the announcement that MSCI will raise the weight of Chinese stocks in its global benchmarks. Indices in Yields have risen, with the German and US 10 years at 0.188% and 2.72% respectively. Oil has increased above $57.50 (WTI).

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25916	-69.16	-0.27%	11.10%
S&P	2784	-7.89	-0.28%	11.08%
Nasdaq	7533	-21.98	-0.29%	13.52%
Nikkei	21603	217.53	1.02%	7.93%
Hang Seng	28812	178.99	0.63%	11.48%
Brent Oil	66.49	0.18	0.27%	23.59%
WTI Oil	57.53	0.31	0.54%	26.69%
Gold	1306	-6.89	-0.52%	1.87%
€/$	1.1361	0.00	-0.09%	-0.92%
€/£	0.8577	0.00	0.04%	-4.58%
£/$	1.3245	0.00	-0.14%	3.85%

	Yield	Change
German 10 Year	0.187	0.00
UK 10 Year	1.308	0.01
US 10 Year	2.7295	0.01
Irish 10 Year	0.823	0.00
Spain 10 Year	1.176	0.00
Italy 10 Year	2.75	-0.0060

Source: Bloomberg, CF Research February 2019

AIB - Post strong new lending and increase dividend Closing Price: €4.13

News

AIB released its FY 2018 results this morning that were marginally ahead of expectations and again demonstrated the bank's ability to deliver consistent operating results. Total operating income was lower than FY17 but in line with our estimates at €2.7bn (est. €2.67bn) with net interest income (NII) at €2.1bn (est. €2.06bn) and other income of €626mln (est. €618mln). Other operating income was lower than the previous year (FY17 €791mln). Cost were in line with FY17 at €1.4bn resulting in a cost income ratio (CIR) of 53% (est. 51%), marginally higher on weaker other income. Profit before tax (PBT) was marginally lower than FY17 at €1.25bn (est. €1.2bn).

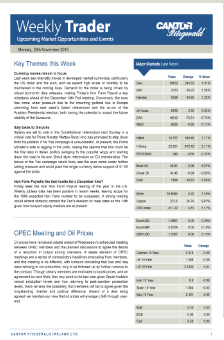
On the balance sheet new lending was strong at €12.1bn (est. €10.8bn), which is +15% on the previous year. Irish mortgage lending was consistent growing at 16% and holding 32% market share. Corporate and Institutional lending was very strong up 24% to €4bn. SME performance was "solid" despite Brexit weakness. Customer deposits were also strong, coming in €2bn ahead of our estimates at €67.7bn (est. €65.7bn), resulting in a loan deposit ratio (LDR) of 90% (est. 93%). Excess deposits over the customer loans (<100%) will cause a drag on profitability as additional funds cannot earn an adequate margin. Some cases will result in a P&L loss due to the bank not charging a customer while paying -40bps to hold that money with the ECB. Non-performing exposures (NPE) came in ahead of our expectations. NPEs at year end were €6.1bn (est. €6.8bn) resulting in an NPE ratio of 9.6% (est. 10.8%)of gross loans. Capital was likely the biggest negative of this morning figures coming in flat on FY17 at 17.5% (est. 18.1%), despite generating 210bps of organic capital. Management called out movements in investment securities reserves and other regulatory deductions. Finally, the board announced a full year dividend of 17c (est. 16c), which represents a +4% yield and equates to a c. 40% pay-out ratio. There was no change to medium term guidance but management noted Brexit as generating uncertainty. Donal Galvin, the interim CFO and Group Treasurer, was confirmed as CFO.

Comment

Today's performance reaffirms our outlook on AIB as the best placed Irish bank. Its Digital Lead strategy is paying off as it enjoys superior profitability and efficiency compared with its peers. Todays results were encouraging with a slightly stronger dividend and stronger new lending the stand out positives. The capital figure is somewhat concerning especially given AIB is yet to complete the ECB's TRIM process which could further impact capital levels reducing its capacity to distribute funds to shareholders. Management also need to consider a strategy to bring the LDR back towards 100% as it will continue to be a major drag on margins. We maintain our outperform rating on AIB

Pierce Byrne, 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.

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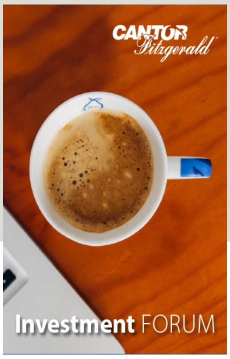

Investment Forum

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

[Click here]

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

AIB Group: AIB Group plc attracts deposits and offers commercial banking services.

Historical Recommendation:

AIB Group: AIB Group Plc is a member of our core portfolio and we have an Outperform rating on the stock since 12/12/2018

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