Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 6th March 2019

Morning Round Up

Mario Draghi is boxed into being generous to banks

Mario Draghi is boxed into being generous. The European Central Bank boss is likely in the coming months to announce new cheap long-term bank loans well before old ones start falling due in 2020. Even if the economy weren't slowing, there is an impending regulatory crunch he would want to avert. Under the net stable funding ratio (NSFR) agreed by rule-setters in Basel last year, lenders must match their assets with funding of more than one year. Funding that matures in less than a year faces a 50% haircut in counting towards a bank's NSFR, while anything below six months is discounted completely. True, these rules only apply from 2021, the year after long-term loans that the ECB made under its targeted long-term refinancing operation, or TLTROs, start maturing. But stronger lenders have an incentive to prove to investors they are ready before the deadline, as has been the case with other regulation. They may therefore pay loans off earlier than necessary and will be able to do so beginning from the end of March. The last thing the ECB wants at a time of slowing growth is a deleveraging of banks' balance sheets. Also, while stronger banks such as UniCredit can cope without such loans, smaller and weaker lenders in "peripheral" countries may struggle to fund themselves in the open market. Spanish and Italian banks combined account for roughly 56% of the ECB's €718bn worth of TLTROs. Bigger banks say that new TLTROs could depress loan margins by increasing competition and encourage irrational lending decisions. There are ways to mitigate such concerns. The ECB's old long-term loans were offered at a fixed rate of minus 0.4% – the central bank's deposit rate. New ones could be extended at a variable rate, that tracks either the deposit rate or short-term Euribor lending rates, possibly with a spread over one or the other. Draghi could also limit the purpose of the loans, though that might defeat his desire to maintain a steady flow of credit to the real economy. Whatever the terms, the central bank has little choice but to keep being generous.

Origin Enterprises post interim results

Origin posted a brief interim statement this morning showing good progress on the previous year. Group revenue was 19.5% ahead of H118 at €701.6mln. Revenue growth was driven by increased agronomy services and crop input volumes, increased fertiliser prices and the acquisition of Fortgreen. Operating profit for the period was €9.07mln compared with €2.2mln in H118, the acquisition of Fortgreen added €5.5mln while underlying operating profit was up by c. €1mln. Net debt increased to €238.8mln, which is 2.57x (FY18 2.17x) 12M EBITDA to the 31/01/2019, on the acquisition of Fortgreen and investment in working capital. Management noted planning is in place for a no deal Brexit, additional storage was secured over the winter period for the traditional peak season and additional inventory has been secured. The second half of the year is seasonally more important for management and full year guidance will be provided with its Q3 trading update in June.

Glenveagh posts operating loss

Glenveagh's home deliveries were ahead of guidance at 275 (guided at 250) and are confident in its FY19 guidance of 725 homes. Full year revenue was €84mln, incorporating €79mln in unit sales and €5mln in land sales. Gross margin was 18.2% and the group posted an operating loss of €2.5mln. The group is currently selling from 11 sites and is constructing on 14 sites with 1,100 units under construction during the period. The land bank has the capacity to deliver 12,600 units with an average cost per site of €51,000. Management are on track to raise an additional €90mln by way of a share placement.

Source: Bloomberg, CF Research March 2019

Key Upcoming Events

07/03/2019 ECB Meeting
08/03/2019 US Non Farm Payrolls
12/03/2019 Commons vote on Withdrawal Agreement

Market View

US markets finished yesterday marginally lower as markets search for some trade certainty. Japan was lower, while China has advanced as the National Peoples Congress continues. Europe has opened lower this morning, while US futures point to a softer open this afternoon. Treasury yields moved lower in the US with the 10 year yield at 2.71%. In Europe, Bund yields have moved lower to 15bps at the 10 year point. Geopolitics continues to dominate sentiment with Brexit debate in Europe pointing to the possibility of another heavy defeat for Prime Minster May. On the data front, US trade data is set to be published this afternoon.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25807	-13.02	-0.05%	10.63%
S&P	2790	-3.16	-0.11%	11.28%
Nasdaq	7576	-1.21	-0.02%	14.18%
Nikkei	21597	-129.47	-0.60%	7.90%
Hang Seng	29038	76.00	0.26%	12.35%
Brent Oil	65.46	-0.40	-0.61%	21.67%
WTI Oil	55.89	-0.67	-1.18%	23.08%
Gold	1286	-1.60	-0.12%	0.31%
€/$	1.1302	-0.0006	-0.05%	-1.44%
€/£	0.8596	0.0015	0.18%	-4.38%
£/$	1.3148	-0.0030	-0.23%	3.09%

	Yield	Change
German 10 Year	0.15	-0.018
UK 10 Year	1.264	-0.023
US 10 Year	2.710	-0.007
Irish 10 Year	0.795	-0.016
Spain 10 Year	1.14	-0.016
Italy 10 Year	2.693	-0.014

Source: Bloomberg, CF Research March 2019

Glanbia - Meeting with management reaffirms our positive outlook. Closing Price: €18.56

News

Yesterday we met with Glanbia management to discuss the recent results and outlook for the coming year. The meeting reaffirmed our long term positive outlook on the stock.

Comment

Glanbia's FY18 results have seen the stock gain 15% in less than two weeks. FY18 figures were better than expected, guidance was broadly positive and management delivered on its targets from the beginning of the year (a key reason for such a sharp price appreciation) . It also delivered on its medium term goals, as outlined in last year's capital markets day. Management have stressed that meeting these targets will be a key focus for the business. It should be noted that it revised down its medium guidance for Nutritional Solutions (NS) EBITA margin to 13%-15% (previously 14%-16%) and US cheese to low to mid single digits (previously mid single digits), due to IFRS 15 which requires inclusion of the Southwest Cheese JV.

At present it is guiding for 5%-8% constant currency (cc) growth for 2019. Within this it expects GPN and NS volume growth to be in the mid single digits. This appears relatively conservative in our opinion given the accelerating trend of volume growth over the past few years. Pricing in the GPN business is expected to be flat and potentially positive in NS and US cheese. With decent transparency for the year, it expects seasonality again in 2019, with slower growth in H1/19 before accelerating in the second half of the year. This may provide opportunity for shorter term trading clients to pick up the stock on irrational weakness after Q1/H1 results as was the case in 2018.

The long term structural investment case for Glanbia remains strong. Its well positioned in the secularly growing healthy lifestyle food sector. The GPN business has expanded both its product range (RTE and RTD categories) and its global reach. Online revenues are now 28% of the business and ex US revenues have increased to 39%. It has positioned itself well in newer markets in Asia (Korea, India) and is seeing solid growth in Oceania (Australia). The Body and Fit business (European online DTC), is growing well and the new platform should be live by H2/19. Amazing Grass, the plant based business, has sizeable potential given current dietary trends. Slimfast, the US weight management company, which was purchased late last year, saw revenue growth of 17% in 2018, with expectations of double digit growth again this year and its online offering expanding.

The NS business (customised nutrient premixes, advanced-technology protein solutions, functional beverages and flavours) is seeing solid demand from both new and well established partnerships. This side of the business also stands to benefit in the ever evolving food industry. The recently announced acquisition of Watson, which was acquired for c.8x EBITDA, will add to growth this year. We expect M&A to be more focused on this side of the business in the short term. The US cheese business should remain robust and driven by volume growth.

Its cash flow generation, profitability and balance sheet remain supportive. Operating cash flow grew to €301.7m in FY18, representing a 92% cash conversion rate (above its 80% targets). Free cash flow was also solid growing to €295.4m (from €136.9m). Return on Capital Employed fell by 20bps to 13.2%, due to the dilutive effect of recent acquisitions. The balance sheet is still in a good position with a net debt to EBITDA of 1.5x.

Despite the rerating since the end of 2018, Glanbia's valuation is not stretched. With a 12m forward P/E of 18.8x, it is trading in line with its 5 year history and still at a discount to the broader STOXX 600 Food and Beverage sector (20x). Given the structural growth story we maintain our 12m Outperform rating on the stock. However it is likely that there will be periods of weakness the first half of the year as the market under appreciates the seasonality of results.

David Fahy, CFA | Investment Analyst

PaddyPower Betfair - FY18 ahead of expectations

Price: €72.30

News

Paddy power released a reasonably positive set of FY18 results this morning. Headline figures came in broadly ahead of expectations and management reiterated its focus on the US. However outlook for the rest of the business was limited. Revenue grew by 6%, on a pro forma basis, to £1,873m, slightly ahead of consensus expectations of £1,863m. Underlying EBITDA (pre US sports betting investment) grew by 2% to £475m, ahead of estimates of £469m and in the upper range of its guidance (£465m-£480m). The US sports betting investment for the year negatively effected EBITDA by £24m. Underlying EPS fell by 5% to £3.79, ahead of expectations of £3.74. The proposed dividend for the full year is 200p, representing a 53% payout ratio. Net debt rose to £162m, but it remains at a healthy 0.4x 2018 EBITDA.

The underlying components of the business performed reasonably well. Online revenue grew by 5% in the year with the Paddy Power brand gaining 11% (ex Italy which ceased operations) and Betfair up 4%. The Paddy Power brand had a notable turnaround from 2017, when it lost market share. Sportsbook revenue increased by 3% aided by new product initiatives. Exchange revenues decreased by 2%, predominately due to a poor Q1. After a difficult 2017, Gaming's performance stands out, growing by 13%. Australia revenue grew by 6%, below previous trends, due to unfavourable results and promotional investment. Pro forma US revenue increased by 18% with solid growth in the underlying businesses. Retails performance was relatively solid despite revenues falling by 1%.

The release noted the extent of regulatory headwinds in its existing markets. It estimates that the gross impact in EBITDA from regulation changes would have been approximately £118m had they applied for the full year in 2018 (26% of EBITDA). Management provided little guidance bar stating that it had started the new financial year in line with expectations. However it went into more detail on the US business, noting good momentum into 2019. At present it expects the New Jersey sportsbook will generate a positive contribution 18-30 months post launch.

Management will be seeking shareholder approval at the AGM in May to change the Groups name to Flutter Entertainment.

Comment

A relatively positive set of results this morning leading the stock to gain 1% on open. The improvement in the Paddy Power brand is an important development for the business. Exchange remains weaker compared to history, a trend which is likely to continue due to competition in the space. Its limited exposure to FOBTs is a significant advantage relative to it peers (William Hill). Regulation will continue to adversely affect its larger more mature markets (Ireland, UK and Australia). However newer markets provide the ability to grow the business. The potential for the US business is significant and PPB has already positioned itself well. However further investment is required and the return on this investment remains some way off.

Despite the aforementioned headwinds and expected falling profits in 2019, it trades at a FY19 P/E of18.5x. At present this is too expensive in our opinion. As a result we maintain our Market Perform rating

David Fahy, CFA | Investment Analyst

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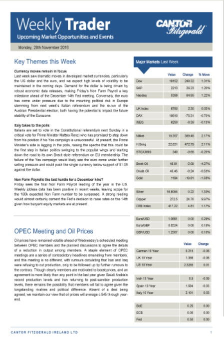

Weekly Trader

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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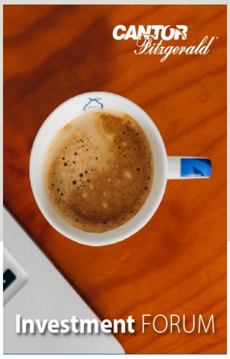

Investment Forum

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Paddy Power Betfair: Paddy Power Betfair Public Limited Company is a betting and gaming company. The Company provides online betting and gaming products.

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

Historical Recommendation:

Glanbia Plc is a member of our core portfolio and we have an Outperform rating on the stock since 06/03/2018

Paddy Power Betfair: Currently outlook is Market Perform

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