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

CANTOR Fitzgerald

Friday, 26th April 2019

Morning Round Up

Further signs of slower global economic growth

Following on from weak data out of Germany (IFO), South Korea (GDP) and the US (jobless claims) this week, Japan this morning reported weaker than expected Industrial Production for March (-4.6% YoY versus -3.8% expected). There are concerns that this may signal Japans economy actually contracted in Q1 also. Japanese PM, Shinzo Abe is meeting with Donald Trump next Friday as negotiations on bilateral trade continue. Abe is currently trying to fend of possible US tariffs on Japanese autos. Post today's US Q1 GDP figure (est. +2%), top down investors will be paying close attention to European PMI's next week before payrolls data next Friday (est. 181k)

Pharma results surprise to the upside

Post significant under performance of the pharma sector year to date, recent positive results may trigger stronger performance ahead. The sector has been weighed down by concerns of political interference in drug pricing. Sanofi (12.5x earnings & 4% yield) reported better than expected results this morning due to strong vaccine sales with management reiterating 3-5% earnings growth for the year ahead. The stock is trading up this morning. The specialty pharma company AbbVie reported better than expected Q1 numbers and revised up its full year outlook. AbbVie trades on 9x earnings relative to the average US listed company on c.17x earnings. Bristol Myers (10x earnings and 3.6% yield) also reported a better than expected Q1 result and reaffirmed its FY 2019 guidance. Healthcare/Pharma sector has underperformed global indices by c.10-12% year to date but valuations and better than expected earnings outlook could see investors review there allocation to the sector. Within our Core fund we hold Pfizer and United Health Group. For broader exposure, investors could consider allocating some of their portfolio to the iShares STOXX Europe 600 Health Care UCITS ETF (DE) or the Worldwide Healthcare Trust PLC.

Intel stock trades down by 6% pre-market

Intel reported weaker than Q1 financial results as both revenue and profit margins disappointed. Operating income declined by 7% YoY in Q1 on relatively flat revenue. Intel PC chip volumes fell by 7% YoY and data centre group revenue declined by 6%. TSMC, Nvidia and other tech names fell in tantum. Post the strong rally in Apple shares, we see rationale in taking profits.

US paper companies report encouraging results

Both Packaging Corp and International Paper reported encouraging numbers, which should provide some positive read through ahead of Smurfit Kappa's results next Friday. IP reported stronger than expected earnings and a positive outlook for packaging in North America. Packaging Corp also reported higher pricing and volumes.

Core Portfolio Changes

We have made a change to our core portfolio as of close of business yesterday. We have reduced a 2% allocation to **Rio Tinto** to 0% and increased the allocation to Glanbia from 2% to 4%. **Rio Tinto** has performed well since its inclusion at the beginning of the year, however, given recent dollar strength and poorer economic data from the Asia Pacific region, we are reducing the portfolio's exposure to emerging markets. **Glanbia** has traded back down to €16.40 on the back of mixed trading update this week. We see this as an attractive opportunity to increase our allocation as we retain conviction in managements strategy and expect H2 to deliver improved performance as we saw in 2018.

Source: Bloomberg, CF Research April 2019

Key Upcoming Events

01/05/2019 FOMC Decision
23/05/2019 EU Parliament Elections

Market View

Technology stocks led US markets yesterday as the Nasdaq Composite hit an intraday high and closed 2 points below its all-time high. Weak outlook from some Industrials in the US has weighed on its domestic growth outlook. Asian shares were mixed after weak Japanese data followed yesterday's Korean data. Europe has opened lower this morning. Focus today will be on Q1 GDP reading from the US. Expectations are for 2%, in a quarter that included a government shutdown and a polar vortex in the Mid-West. Earnings season continues with the Oil Majors publishing results today. In Europe, RBS and Deutsche Bank have numbers this morning.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26462	-134.97	-0.51%	13.44%
S&P	2926	-1.08	-0.04%	16.73%
Nasdaq	8119	16.67	0.21%	22.36%
Nikkei	22259	-48.85	-0.22%	11.21%
Hang Seng	29605	55.21	0.19%	14.55%
Brent Oil	73.78	-0.57	-0.77%	37.14%
WTI Oil	64.41	-0.80	-1.23%	41.84%
Gold	1282	4.89	0.38%	-0.03%
€/$	1.1142	0.00	0.09%	-2.83%
€/£	0.8632	0.00	0.01%	-3.98%
£/$	1.2908	0.00	0.07%	1.21%

	Yield	Change
German 10 Year	-0.024	-0.02
UK 10 Year	1.139	-0.02
US 10 Year	2.518	-0.01
Irish 10 Year	0.559	0.00
Spain 10 Year	1.08	-0.01
Italy 10 Year	2.67	-0.0200

Source: Bloomberg, CF Research April 2019

Total - Solid results driven by production growth

Closing price: €49.91

News

Total released a solid set of results this morning as its production growth and better than expected performance in the downstream offset lower average oil prices in the quarter. Net Income came in in line with consensus forecasts, falling by 4% to \$2.8bn. Cash flow remained healthy despite the lower commodity price environment. Cash flow before working capital charges rose by 12% to \$6.03bn. Debt Adjusted Cash Flow (DACF) rose by 15% to \$6.5bn. Profitability was consistent with Return on Equity (ROE) holding steady at 12%. Gearing remained in line with its medium term targets at 19.8%.

Upstream (including iGRP) came in below consensus expectations (\$2.3bn vs \$2.4bn) as lower commodity prices offset production growth. Production was impressive rising by 9% to 2.95 mb/d. This was driven by the ramp up in cash accretive projects in Egina, Ichthys and Kaombo. Within the segment LNG's sales doubled to 7.7mt due to a number of start ups and the acquisition of Energies LNG. Importantly management reiterated guidance of 9% upstream production increases in 2019. Within the downstream component, Refining and Chemicals performed well (particularly given the difficult environment in Q1), increasing 5% to \$756m (vs \$700m consensus). Marketing and Services was slightly weaker than expected, down 7% to \$343m.

Looking forward management left guidance unchanged for the year. Projected net investments for 2019 remained at \$15- \$16bn and opex target was \$5.5/bbl. The organic pre-dividend cash flow breakeven will remain below \$30 a barrel (< \$25 in Q1). The dividend will be increased by 3.1% and \$1.5bn will be bought back in 2019.

Comment

After a difficult quarter for Energy stocks given the tough macroeconomic environment these were a broadly positive set of results. Lower oil and gas prices in the market were alleviated by the company's growth and operational efficiencies. With the current higher oil prices the backdrop heading into Q2 is significantly more favourable. However, Refinery margins will likely remain volatile. Total's structural improvements are clear with its organic pre-dividend cash flow breakeven less than \$25 a barrel in Q1 (oil prices back to \$75). Given production increases, cash flow generation and relatively cheap valuation (10x 12m forward P/E), Total remains one of our preferred names with Energy sector, a sector we are overweight at present. We maintain our Outperform rating. Conference call will be held at 1pm.

David Fahy, CFA | Investment Analyst

Amazon - Growth slowing but profitability improving

Closing price: \$1902.25

News

Amazon released result after the bell yesterday, which were well received by the market. Q1 net sales were up 17% to \$59.7bn (est. \$59.7bn) resulting in net income of \$3.5bn and earnings per share of \$7.09 (est. \$4.67). EPS more than doubled from \$3.27 in Q118 on the back of improved margins across the business. Growth remains strong but significantly slower than Q118, which is a concern. North American sales growth slowed to 17% from 46% in the same period last year, the international business slowed to 9% (17% on a constant currency (cc)) from 34% and Amazon Web Services (AWS), the cloud computing business, posted 41% growth down from 49%. Improved profitability resulted from improving margins across each segment. North America generated operating margin of 6.4% (Q118 3.7%), International segment generated a -1.0% margin (Q118 -4.2%) and AWS generated 28.9% (Q118 25.7%).

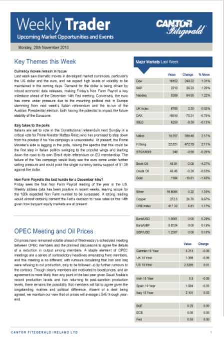
Management guidance for Q2 was somewhat disappointing, with the lower end of its guidance generating some concern regarding top line growth. Net sales in Q2 are guided between \$59.5bn-\$63.5bn (est. \$62.37bn) or 13%-20% growth, which includes an expected currency head wind of 1.5%. Operating income is expected to be between \$2.6bn-\$3.6bn (est. \$4.18bn).

Comment

Yesterday's results from Amazon focused on the business's cash flow generation, as investors begin to question the abnormal top line growth rates. Improving margins helped to deliver strong cash flow growth. However, management spoke about rolling out free one day delivery in select markets (the US) in Q2 at an expected cost of \$800mln. Improving margins and profitability, while also investing in growth to maintain Amazon's previous growth rates is a difficult challenge for management to deliver. We will be watching how North American sales react to one day deliveries, which potentially could give Amazon access to the more impatient consumer. AWS continues to be the gem of Amazon's portfolio. It achieved \$28bn in trailing twelve-month revenues, \$7.7bn in quarterly revenues, sales growth of 40% and an operating margin of 29%. Valuations remain high at 46x forward earnings; however, we would expect improved profitability to offset any decrease in multiple. It remains to be seen, if Amazon can continue to deliver abnormally high growth rates on its e-commerce platform in conjunction with improving profitability. In any case, Amazon has several structural tailwinds between cloud and e-commerce to maintain its position as one of the most valuable companies in the world and we expect it to continue to deliver value for shareholders. We maintain our outperform rating on Amazon.

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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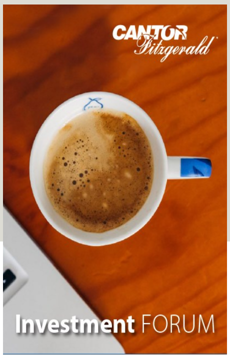

Investment Forum

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

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Total: TOTAL S.A. explores for, produces, refines, transports, and markets oil and natural gas. The Company also operates a chemical division which produces polypropylene, polyethylene, polystyrene, rubber, paint, ink, adhesives, and resins.

Amazon: Amazon is an online retailer that offers a wide range of products.

Historical Recommendation:

TOTAL: We initiated with an rating an Outperform rating on Total on the 12/04/2019

Amazon: We have an Outperform recommendation for Amazon since 26/07/13, and no changes have been made since then.

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

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