Daily Note
Views, news and topics from today's markets
CANTOR Fitzgerald
Thursday, 2nd May 2019

Morning Round Up

The Fed on hold for now

Fed Chairman, Jerome Powell, delivered the FOMC's decision after this month's policy meeting. In the wake of pressures from both bond market (indicating one cut by year end) and President Trump's tweets, Mr Powell's prepared comment stated, "We don't see a strong case for moving in either direction," as the Fed Funds Rate remained unchanged. Yields fell on the statements release, however, as the press conference developed markets began to reduce rate cut expectations with Treasuries ultimately finish mostly unchanged. Conflicting data has the Fed in a wait and see mode as Q1 GDP was stronger than expected and employment remains tight, simultaneously inflation remains low and some leading indicators are trending weaker. Mr Powell addressed inflation concerns, labelling them as transitory, indicating one off factor should drop out of the calculation over the coming readings. Overall, the market had little by way of expectations going into yesterday's announcement, as expected the Fed gave little away and remains patient for the time being.

BOSS Q1 EBIT weak but FY 2019 guidance re-affirmed

Hugo Boss released its Q1 trading update this morning, reporting 4% like for like growth in retail store sales and 26% growth in Online sales. Due to timing of marketing spend and some efficiency measures, Q1 operating profit dropped by 22% to €55m on the prior year but management held their guidance for 2019 which is for mid-single digit sales growth and 5-10% growth in operating profit. China sales momentum continued were as restructuring weighed on US sales in Q1. European sales grew by 2%. Management expect a substantial acerbation in earnings for remainder of the year. Q2 Sales update is due on 1st August and a dividend of €2.70 (4.5%) is payable on the 17th May.

Volkswagen trade up by 3% on strong Q1 results

Volkswagen Group reported Q1 vehicle sales of 2.6m (-2.8% YoY) and revenue of €60bn(+3.1% YoY). Adjusted operating profit increased by €0.6bn to €4.8bn in Q1. Q1 profits beat expectations and management maintained FY targets of growth in sales. VW brand sales rose by 7%, Audi brand sales fell by 10%, Skoda +8%, Seat +10%, Bentley +35%, Porsche -5%, commercial sales +12%, Scania +12%, Man +8%. At 6x earnings and 0.65x book value – VW looks cheap relative to an peers.

Datalex CEO resigns

Datalex CEO, Aidan Brogan, has resigned from his position with immediate effect. Sean Corkery, Deputy Chairman, will take up executive responsibility as acting CEO of the Company, while the Board undertakes a search for a permanent CEO. This resignation follows on from former Chairman, Pascal Taggarts, resignation last month and the resignation of two CFO's within little over 6 months. Shares are currently suspended due to the failure to release an updated set of full year results by April 30th. We maintain our Under Review recommendation up until we are given further clarity on the recently provided guidance and revenue breakdown from management.

Ryanair April traffic numbers

Ryanair released a solid set of traffic numbers this morning. The broader Ryanair Group saw passenger numbers increase by 10% yoy to 13.5m in last month. Load factor remained solid at 96%. The jump was driven by both the acquisition of Laudamotion(0.5m new passengers) and 5% more passengers within Ryanair DAC (core business)

Source: Bloomberg, CF Research May 2019

Key Upcoming Events

02/05/2019 BOE Decisions
23/05/2019 EU Parliament Elections

Market View

US markets retracted yesterday as some investor may have been expecting a more dovish tone from the Fed. China lead gains overnight in Asia as positive soundings emerged from US-China trade talks. Europe has opened marginally lower this morning, while US Treasury yields are trading higher as expectations of a rate cut are marginally lower post yesterday's press conference. The market's attentions will continue to focus on earnings as European names take the mantel from the US, as its earning season ends. Markets will also be looking to the Bank of England, who meet this afternoon.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26430	-162.77	-0.61%	13.30%
S&P	2924	-22.10	-0.75%	16.63%
Nasdaq	8050	-45.75	-0.57%	21.32%
Nikkei	22259	-48.85	-0.22%	11.21%
Hang Seng	29944	245.07	0.83%	15.86%
Brent Oil	71.5	-0.68	-0.94%	32.90%
WTI Oil	62.89	-0.71	-1.12%	38.49%
Gold	1271	-5.54	-0.43%	-0.88%
€/$	1.1209	0.00	0.12%	-2.25%
€/£	0.8583	0.00	0.04%	-4.52%
£/$	1.306	0.00	0.08%	2.40%

	Yield	Change
German 10 Year	0.019	0.01
UK 10 Year	1.174	0.02
US 10 Year	2.5269	0.03
Irish 10 Year	0.558	0.00
Spain 10 Year	0.995	-0.01
Italy 10 Year	2.54	-0.0140

Source: Bloomberg, CF Research May 2019

GlaxoSmithKline - Top and bottom line beats not sufficient push it forward

Closing price: £15.59

News

GlaxoSmithKline released a solid set of results yesterday afternoon, beating on both top and bottom line expectations. However, there was no change to its guidance of an EPS drop of between -5% and - 9% in FY19. Revenue grew by 5% constant currency (cc) to £7.66bn (vs expectations of $7.54bn). Core operating income grew by 12% to £2.16bn (vs £1.97bn). EPS grew by 22% to £0.30 (vs £0.26). Guidance for 2019 remained unchanged with managements maintaining its expectations of the drop in EPS and an 80p dividend.

The significant beat in earnings were aided by both Pharmaceutical (2% cc revenue growth) and Vaccine (20% cc revenue growth) sales which came in 1% and 7% ahead of consensus forecasts respectively. However, Consumer sales were 2% weaker than expected. Within the pharmaceutical division Advair (which is suffering from loss of exclusivity) came in stronger than expected at £486m as the falling market share was somewhat offset by its own authorised generics. Within the Vaccine segment, Shingrix was the notable outperformer, growing by 43% (+40% vs consensus forecasts). Consumer sales weakness was driven by declines in Wellness and Skin health. Adjusted group operating margin improved by 1% cc, benefiting from lower COGs and a lower than expected R&D spend.

Comment

These were a better than expected set of results with a number of positive points, particularly the performance of a couple of products within the Vaccine segment. Loss of revenues due to the loss of exclusivity for Advair is taking its toll this year as evident in the expectations of a 7% (consensus) drop in earnings this year. The reiteration of the dividend (current 5.1% yield) is important for investors. R&D and the subsequent pipeline of new products remains a key focus for company. However, the time taken for this to feed through substantially to underlying earnings remains some way off. At present we do not see sufficient upside over the next 12 months and as a result maintain our Market Perform rating.

David Fahy, CFA | Investment Analyst

Royal Dutch Shell - Strongest results within the sector

Closing price: £24.90

News

Shell released a strong set of results this morning, coming in significantly ahead of expectations. Given the difficult macroeconomic backdrop in Q1, all underlying segments were better than expected, with integrated gas the outperformer. Revenue fell by 6% to $83.74bn (vs expectations of $83.61bn). Net Income was flat but well ahead of estimates at $5.30bn (vs $4.51bn). EPS grew by 1.56% to $0.65 (vs $0.568). Cash flow generation remained strong as cash flow from operations, ex working capital movements, rose to $11.3bn from $10.4bn a year earlier. Free cash flow came in at $5.6bn, ahead of expectations and supportive of the current buyback program. The second tranche, worth $2.75bn, of this buyback was also announced. Gearing was higher than expected at 21.9% due to the working capital build. Capital discipline was maintained, as Capex came in lower than expected at $5.6bn

The Upstream business performed well with net operating income of $1,725m, 15% ahead of expectations. Despite lower prices in the market, Integrated Gas outperformed with net operating profits of $2.569bn, 24% ahead of expectations. Downstream was also strong despite the difficult quarter for refineries. Downstream net operating profit came in at $1.371bn, 16% ahead of expectations. Outlook remained positive with Upstream production expected to be 150k—200k higher and LNG liquefied volumes expected to be on par with Q218.

Comment

These were the best set of results within the Energy sector this reporting season. Despite a quarter which saw on average lower oil prices, gas prices and refinery margins in the market, Shell posted flat profits, far exceeding numerous peers. Gas was the notable outperformer coming in considerably above market forecasts. Given Shell positioning within the Gas market (25% of global LNG), this was an impressive. Cash flow generation was strong again, supporting its capital allocation framework (debt reduction, dividend and $25bn share buyback). Given the recent improvements within the macroeconomic backdrop we are positive on Shells outlook for the coming quarters. We maintain our Outperform rating and core allocation.

David Fahy, CFA | Investment Analyst

Lloyds Banking Group - Earning miss on exceptional items

Closing price: £63.60

News

Lloyds posted another quarter of consistent performance but missed analyst estimates on earnings. Net interest income (NII) of £3.08bn and a net interest margin (NIM) of 2.91% (est. 2.91%) driving total revenues 2% higher to £4.4bn. The bank's cost income ratio (CIR) 44.7% (est. 46.5%). Pre tax statutory profit missed analyst estimates at £1.6bn (est. £1.88bn) due to exceptional items relating to the exit of its Standard Life Aberdeen agreement and PPI charge. Average interest earning assets fell by £4bn to £433bn in the period, customer deposits grew to £417bn. The month end loan deposit ratio was 106%. The asset quality ratio remained consistent at 25bps. Capital remained strong with a CET 1 ratio 13.9%, while return on tangible equity (ROTE) was 12.5%.

Comment

This morning results from Lloyds delivered another quarter of consistent performance. The headline miss on earnings will weigh on the stock in the short term as investors continue to see PPI charges feed through onto the income statement. The PPI scandal should end in August, when the window for customers to lodge a claim closes. Underlying efficiency and performance metrics continue to outperform peers across NIM, CIR, and ROTE. Lloyds remains the strongest bank among UK peers, however, there are several concerns for investors. Firstly, Brexit continues to weigh on the UK and we can see Lloyds are struggling to grow its loan book over the past year, loans and advances to customer fell from £445bn in Q118 to £441bn in Q119. Following a weaker credit environment and continuous low rate monetary policy, European & UK banks are struggling to drive profitability, and this has been reflected in valuations. The STOXX 600 Banks index trades at 0.66x book value and the UK 350 Banks Index trades at 0.88x, while Lloyds trades at c. 1x book value. It's difficult to see a catalyst for valuation change in the current interest rate and regulatory environments. Within financials, we continue to prefer Northern European retail banks with strong balance sheets and attractive yields, of which Lloyds would classify as.

Pierce Byrne, CFA | Investment Analyst

Kerry Group - Solid update with few surprises

Closing price: €99.80

News

Kerry released a solid Q1/19 update this morning, reaffirming guidance for the full year. Reported revenue grew by 10.3%, driven by 3.3% volume growth, -0.2% decline in pricing, 4.7% acquisition contribution and 2.5% favourable translation currency impact. Group trading margin improved by 10bps reflecting the businesses inflation pass through (lower raw material costs reflected in pricing). Management reiterated guidance of 6% - 10% constant currency EPS growth for the year. Net debt rose to $1.9bn as at the end of March.

The Taste and Nutrition (80% of Group) business performed reasonably well. Volumes grew by 3.8%, slightly weaker than trend. Growth was driven by Meat, Snacks and Dairy End Use Markets (EUMs). Trading margins improved by 10bps due to an enhanced product mix and operational improvements, somewhat offset by Brexit risk mitigation costs. Pricing fell by 0.1% due to lower raw material costs. The three underlying regions performed well, Americas (+2.6% volume growth), Europe (+2.4% volume growth) and AMPEA (+9.3% volume growth).

The Consumer Foods (20% of Group) business performed as expected. Volumes grew by 0.8%, pricing declined by –0.3% (on lower raw material costs) and trading profit margins fell by -10bps (impacted by Brexit risk mitigation costs).

Comment

A positive update from Kerry this morning with no major surprises. Volumes within the Taste and Nutrition business were slightly below trend but still broadly positive. AMPEA performed strongly again, its importance within the overall Group growing steadily. Kerry's ability to pass throw cost inflation and improve margins remains a notable positive attribute. The fundamental investment case behind Kerry remains supportive with positive secular trends, Asia/EM penetration, high quality (and profitability), cost inflation pass through and above market growth. However, given its valuation (26x FY19 P/E) we believe upside at present is limited. As a result we maintain our Market Perform rating (downgraded last month).

David Fahy, CFA | Investment Analyst

Paddy Power Betfair - Q1 revenue momentum improves Closing price: €74.68

News

Paddy Power Betfair released its Q1 trading update this morning reporting an improvement in momentum on a number of fronts. Q1 revenue grew by 17% YoY, an improvement from 6% at FY 2018. Paddy Power reported a 22% increase in average daily actives. The acquisitions of FanDuel and Adjarabet helped deliver growth in 47% growth in its US division and 31% growth in its online gaming division respectively. FanDuel took 50% market share in the New Jersey sports betting. Australia reported 20% revenue growth.

Due to unfavourable sports results, online sports revenue declined by 6% and retail sports revenue declined by 5%. Online net revenue margin declined by 1% to 6.6%. Adjusting for unfavourable sports results, there was early signs of net revenue margin stability and growth across most divisions.

Comment

Given that acquisitions were key to Paddy Power Betfair's growth and that they have a fairly strong balance sheet, then group is well placed to make further bolt on acquisitions which could get investors excited about the future growth outlook. Consensus currently expected PPB to report flat earnings in 2019 before a return to growth in 2020.

Paddy Power Betfair shares are trading down by down by 20% since June 2018 and has traded down from €120 in Q1 2016. There seems to be some resistance at €80-€81 on the chart. There was a buyback of shares done between September 2018 and February 2019.

A further improvement in momentum at half year results would help us become more positive on the stock but for the time being, 18x earnings for a company not growing earnings due to marketing and investment spend and with margin pressure restricts us from recommending it as an outperform.

Darren McKinley, CFA | Senior Equity Analyst

Dalata Hotels - AGM trading update in line Closing price: €5.89

News

Dalata Hotel Group had an AGM trading update this morning reporting trading for the first four months of 2019 are in line with expectations and ahead of the first four months of 2018. RevPar growth in Dublin is running at 2.4% and in the UK is at 3% with the outlook for Q2 and H2 encouraging. A pipeline of 2,200 rooms will come onstream in late 2020, adding to their 9,000 rooms at present.

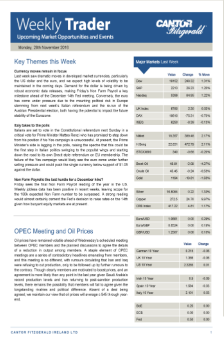
Dalata Hotel Group will provide H1 2019 results on the 3rd September and host a Capital Markets Day on the 5th November.

Comment

RevPar growth is slowing relative to FY 2018 and earnings are exposed to Brexit uncertainty. Our year end fair value is raised to €6.25 and would look for weakness over the next few months to re-access our view on Dalata Hotel Group shares but would equally use strength to take profit in the short term given the global macro uncertainties.

Darren McKinley, CFA | Senior Equity Analyst

Cantor Publications & Resources



Weekly Trader

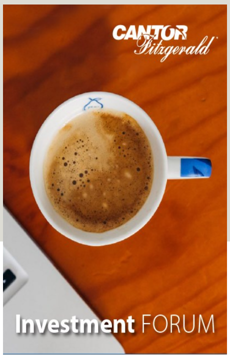
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

[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)

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

Royal Dutch Shell: Royal Dutch Shell explores, produces, and refines petroleum

Kerry Group: Kerry is a major international food corporation. The Group develops, manufactures, and delivers innovative taste solutions and nutritional and functional ingredients

Lloyds: Lloyds offers a range of banking and financial services including retail banking, mortgages, pensions, asset management, insurance services, corporate banking and treasury services.

GlaxoSmithKline: GSK is a research based pharmaceutical company.

Dalata Hotel Group: Dalata Hotel Group owns and operates as a chain of hotels.

Historical Recommendation:

Paddy Power Betfair: Currently outlook is Market Perform

Royal Dutch Shell: Royal Dutch Shell Plc is a member of our core portfolio and we have an Outperform rating on the stock since 20/05/2013

Kerry Group: We have an "Market Perform" rating on Kerry as of 5/04/2019

Lloyds: We removed Lloyds from our Core Portfolio and move it to market perform 02/05/2019

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

Dalata Hotel Group: We downgraded Dalata to Market Perform on the 26/02/2019

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 retails 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 recommendations 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 purchased or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommend 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 to 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 affect 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 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.

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