Daily **Note**

Views, news and topics from today's markets

Friday, 3rd May 2019

Morning Round Up

BOE unanimous on maintaining rates at 0.75%

The Bank of England's (BoE) monetary policy committee met yesterday to decide on interest rates voting unanimously to maintain its key interest rate at 0.75% and asset purchases unchanged. A unanimous result sent a dovish tone to markets, however, Govern Mark Carney relayed a more hawkish outlook. The bank raised it forecasts noting a stronger global economy and easing trade tensions. The BoE raised its outlook for 2019 by 25bps to 1.5%, while 2020 and 2021 were also revised higher from its February forecasts. Carney argued that a positive Brexit outcome could lead to a faster rate increases than the market currently anticipates. He also warned the negative impact Brexit uncertainty is having on business, saying the U.K. could be in for the longest drop in investment in the post-war period. A positive outlook for the UK should boost equities, however, the continued uncertainty generated by Brexit will continue to weigh on asset prices and investors remain in a wait and see approach to investing capital into UK assets.

Demand for mid-priced apparel spurs on profitability

Adidas reported an exceptional start to 2019 in terms of profitability with revenue growing at 6% adjusted for currency, gross margin increasing by 2.5% to 53.6% and operating margin increased by 1.4% to 14.9%. As a result Q1 net income grew by 16%. China and ecommerce was a key driver of sales growth. Group net cash increased by €537m to €908m. Adidas maintained full year guidance with strong demand for mid-priced apparel, so much so that the company is not able to fill supply chain shortages. Adidas is trading up 28% over the last year relative to 19% earnings growth. Its shares trade on 24x earnings and offer a 1.6% dividend yield. Adidas is up 6% this morning.

Preliminary 2019 results report a return to earnings growth

Sainsbury's stock has retraced to £2.22 this morning, having been one of the strongest performers in Europe on Wednesday post FY 2019 preliminary results. Preliminary results saw Sainsbury report an 8% increase in underlying PBT driven by an improvement in super market sales, cost synergies from Argos integration and robust online sales. Its shares have traded down from the top of its trading range of £3 on the back of the UK competition authority blocking the Sainsbury's/Asda merger. Valuations look compelling, 11x earnings and 0.7x book value, if the company can sustain the earnings growth. The CEO and CFO have been buying shares.

UKX Index (UK Top 100 Companies) 1 Year Price Chart

Source: Bloomberg, CF Research May 2019

Key Upcoming Events

23/05/2019 EU Parliament Elections

Market View

US markets continued to retreat from recent record highs, mixed PMI data outweighed better than expected earnings. Investors will be watching US jobs data (190k expected) today after a strong ADP employment number earlier in the week. China continues to outperform in Asia as positive sentiment emerges from US trade negotiations. Europe has opened positive this morning on the back of some strong earnings from Adidas and HSBC buoying risk sentiment. Markets will be watching as positive sentiment builds regarding Trade. And UK politics likely to produce a heavy defeat for the Government in local elections across Britain.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26308	-122.35	-0.46%	12.78%
S&P	2918	-6.21	-0.21%	16.38%
Nasdaq	8037	-12.87	-0.16%	21.12%
Nikkei	22259	-48.85	-0.22%	11.21%
Hang Seng	30082	137.37	0.46%	16.39%
Brent Oil	70.27	-0.48	-0.68%	30.61%
WTI Oil	61.49	-0.32	-0.52%	35.41%
Gold	1270	-0.98	-0.08%	-1.00%
€/$	1.1155	0.00	-0.15%	-2.72%
€/£	0.8579	0.00	0.06%	-4.56%
£/$	1.3003	0.00	-0.22%	1.95%

	Yield	Change
German 10 Year	0.037	0.01
UK 10 Year	1.205	0.02
US 10 Year	2.5594	0.02
Irish 10 Year	0.562	0.00
Spain 10 Year	0.995	0.00
Italy 10 Year	2.56	0.0030

Source: Bloomberg, CF Research May 2019

Bank of Ireland - No surprises from BOI Q1 IMS

Closing price: €5.65

News

Bank of Ireland released a Q1 IMS this morning which confirmed performance in line with management guidance's. Net interest margin (NIM) was 2.16% in line with FY guidance, with net interest income and other income in line with expectations. Management confirmed costs were 3.5% lower than the same period last year, showing encouraging progress towards its 2021 targets. Customer loan volumes grew, on the back of strong Corporate and UK Retail, up to €79.1bn. An increase of €2.1bn, however, on a constant currency (cc) basis the loan book advanced €0.6bn. Another encouraging comment regarded momentum into Q2 for SME lending, which was particularly weak on the back of Brexit in 2018. Mortgage lending looks to have slowed, with share falling to 23% from 27% in FY18, as management increased rates on its primary fixed mortgage products. Management expect the market to follow them higher, with expectations that full year market share will be between 25%-30%. Asset quality remains in line with expectations, as management continue to look for opportunities to reduce its non performing exposures. Customers deposits were €79.7bn on the reporting date, up €0.8bn but on a cc basis customer deposits actual fell. The loan deposit ratio (LDR) was 99%, which trended higher from December 18 at 97%, which is a trend we will be hoping to see continue. Capital was 10bps lower, on an accumulation of higher RWAs, investment in its transformation program, and accrued dividend.

Comment

This morning's release was mixed but mostly in line with the market's expectation. NIM, as guided at full year, fell to 2.16% continues to lag its peers. Progress on costs was again encouraging, as management look like they may be required to push past its initial €200mln saving target by 2021. The balance sheet posted strong growth, with the aid of currency tailwind but strong corporate lending in addition to improving moment in the SME market is encouraging. Managements pricing strategy looks to have hit its share in the mortgage market, which fell to 23%. As a price leader in fixed rate mortgages, we would expect the market to follow Bank of Ireland higher. However, if market share fails to recover to the guided 25%-30% range it would add further hurdles to management achieving its 2021 loan targets.

We continue to see long term value in Bank of Ireland, and expect its transformation program to deliver a stronger, more profitable bank. From a short-term perspective, we expect the drivers of price volatility to be driven by the wider sector rather than BOI fundamentals. Brexit will also be big driver of sentiment, given its exposure to the UK. A positive outcome on Brexit should see a rerating higher. Bank valuations will also be driven by sentiment on the back of European economic data and European political developments with both EU parliamentary elections and Brexit negotiations two events of note. We maintain our outperform rating on Bank of Ireland.

Pierce Byrne, CFA | Investment Analyst

Kingspan - Continues to deliver double digit growth

Closing price: €46.90

News

Kingspan confirmed another strong quarter in its Trading Update this morning posting group sales of €1.06bn. Group sales advanced 18% on Q118 and 6% organic like for like (LFL). Management noted underlying volume growth across key markets were strong, while deflationary raw materials resulted in weaker pricing. All underlying divisions performed well, with Insulated Panels posting 22% growth with 7% LFL growth. The UK market for Insulated Panels saw soft order intake in Q1, resulting in weaker sales performance as we move through the year. Europe saw strong growth in sales and orders, with Southern and Eastern Europe contributing strong results. Insulated Boards posted 12% growth with 2% LFL growth. Europe posted strong volume growth as high performance insulation took share from more traditional materials. The UK market was "solid" given the backdrop and Ireland performed well. The remaining smaller divisions all posted double digit growth with Light & Air up 13%, Data & Flooring up 17% and Water & Energy up 14%. Outlook continues to be positive, with a strong order book ahead of last year with reasonable momentum into Q2.

Comment

Another strong quarter from Kingspan, who are on track to deliver another year of double-digit earnings growth. Despite macro headwinds and Brexit concerns management are continuing to grow its offering globally. There was no mention in this morning's update relating to its rebuffed approach for Recticel. Kingspan remains a very attractive growth company, however, we have been advising clients to reduce exposure at current levels. At 16.2x forward EBITDA Kingspan trades well above the sector and at record highs relative to its own history. From a longer-term perspective, we remain happy to hold positions, but we would expect some weakness in the short term, as it retreats from record highs. We retain our outperform rating and would advises clients to re-establish positions on weakness.

Pierce Byrne, CFA | Investment Analyst

Smurfit Kappa - Q1 trading update supportive of earnings upgrades

Closing price: €27.02

News

Smurfit Kappa released its Q1 trading update this morning reporting 7% revenue growth to €2.32bn and a 25% increase in EBITDA to €424m. Its EBITDA margin expanded 18.3% from 15.7% for Q1 2018. The improved result reflects higher corrugated pricing, demand growth, a focus on cost efficiencies and the benefits of Smurfit's capital programme. European and Americas organic volume growth of 2% and 3% respectively is better than our expectations. Acquisitions completed over the quarter in Bulgaria and Serbia should boost revenue and earnings in the year ahead.

Tony Smurfit, Group CEO, commented: "The Group has had an excellent start to the year building on our established strengths of customer-focused innovation, our integrated operating model, and our ever expanding geographic reach.

"While there is invariably political and economic risk, we confidently expect to deliver another year of progress."

Comment

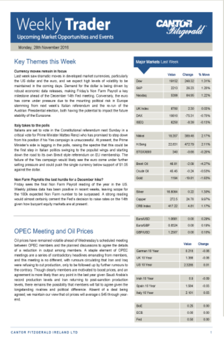
25% growth in EBITDA is an exceptional result for Smurfit Kappa, cycling tough comps from Q1 2018 in which they also delivered a similar 22% growth in EBITDA. The margin improvement reflects progress in managements cost control initiatives which are of significant benefit to shareholder returns. Sustaining this level of profitability for the full year could lead to earnings upgrades of c.10% and see current year valuations fall to c.8.2xP/E which would be a 20% discount to its seven year mean.

Investors should be pleased to see solid organic growth and exceptional growth in earnings relative to a contraction in earnings reported by the average S&P 500 company. With net debt to EBITDA at a more comfortable level of c.2x, we would not rule out further bolt on acquisitions.

Smurfit Kappa is our preferred Irish industrial/materials company and would be using any broad market weakness over the coming months to accumulate their shares for what we see as possible 15% total return through year end from current levels.

Darren McKinley, 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.

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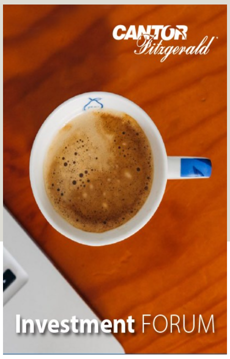

Investment Forum

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Issuer Descriptions: (Source: Bloomberg)

Historical Recommendation:

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