Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 8th May 2019

Morning Round Up

Mixed economic data continues

Aprils trade data from China revealed further signs of a global slowdown. Exports unexpectedly fell by 2.7% (vs +2.3% forecasted) last month, while imports unexpectedly rose by 4% (vs –3.6%). This signals both an improvement in the Chinese economy and a deterioration in the global economy. Shipments to the US, Japan and South Korea all slumped from a year prior. As expected imports from the US also declined. With exports globally trending lower, any further disruption from trade wars will question the markets heightened valuations. Elsewhere, German industrial production unexpectedly rose by 0.5% (vs –0.5% forecasts) in March. All underlying forms of goods rose during the month, led by consumer products. Given the trade uncertainty, valuations and broad deteriorating growth, we continue to advise clients to be cautious when allocating in the immediate term.

Amadeus rises on Q1 results

Amadeus, the travel and tourism technology company, released a better than expected set of results this morning, leading the share price to rise 4% on open. Both top and bottom line beat analyst expectations. Q1 revenue grew by 14.63% to €1.41bn (vs consensus €1.38bn). Net Income grew by 9.52% to €334.7m (vs €324.17m) . Both the Distribution and IT Solutions segments performed well, displaying "healthy growth levels". Management noted its confidence in delivering "good growth" for the remainder of the year.

BMW's weak Q1 results already priced in

BMW released Q1 2019 results this morning reporting a 1% decline in revenue YoY to €19.2bn and a 42% declined in Adjusted EBIT to €1.1bn (5.7% adjusted EBIT margin). Profits were weighed down by an EU anti-trust provision. FY 2019 guidance was maintained which is for unit sales growth with EBIT to decline and an EBIT margin range of 6%-8%. Q1 sales were at a record with electric/hybrid cars becoming more important. BMW i3 sales increased by 16% YoY in Q1 to 9,300 units. BMW will have 5 all electric car products by 2021 and 12 by 2025. At present in Norway, three quarters of all BMW sales are hybrid/electric. Despite the poor EBIT outcome, BMW shares are only trading down by 1% which highlights the amount of bad news in the price. Trump targeting European autos with tariffs could further weigh on the shares in short term. Given their electric car growth driver, weakness could provide an opportunity.

5 year BMW stock price

Source: Bloomberg, CF Research May 2019

Key Upcoming Events

23/05/2019 EU Parliament Elections

Market View

Markets are slightly more positive this morning after yesterdays 2% sell off. Following Donald Trumps tweets on Friday, US-China trade uncertainty continues to drive sentiment. Economic data continues to provide mixed signals as negativity following falling Chinese exports was offset by better than expected data from Germany. Elsewhere, oil has moved slightly higher after yesterdays drop as US inventories pointed to further supply concerns. Yields have moved slightly higher after yesterdays fall. While the euro has strengthened this morning to $1.12. Disney will be the one to watch as they report Q2/19 earnings this evening.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25965	-473.39	-1.79%	11.31%
S&P	2884	-48.42	-1.65%	15.05%
Nasdaq	7964	-159.53	-1.96%	20.02%
Nikkei	21603	-321.13	-1.46%	7.93%
Hang Seng	29003	-359.82	-1.23%	12.22%
Brent Oil	70.11	0.23	0.33%	30.32%
WTI Oil	61.56	0.16	0.26%	35.56%
Gold	1287	2.59	0.20%	0.35%
€/$	1.1204	0.00	0.12%	-2.29%
€/£	0.8589	0.00	0.34%	-4.46%
£/$	1.3045	0.00	-0.23%	2.28%

	Yield	Change
German 10 Year	-0.033	0.01
UK 10 Year	1.144	-0.01
US 10 Year	2.462	0.01
Irish 10 Year	0.509	0.01
Spain 10 Year	0.949	-0.02
Italy 10 Year	2.59	-0.0290

Source: Bloomberg, CF Research May 2019

Siemens - Encouraging quarter as earnings beat expectations Closing price: €102.48

News

Siemens released Q2 results this morning, which were well received seeing the stock trade 3.5% higher. Group orders and revenues were in line with estimates at €23.6bn (est. €23.5bn), while revenues for Q2 were €20.9bn (est. €21.1bn). Revenues grew by 4% on the same period last year, which falls to 2% on a like for like (LFL) basis. The order book backlog stood at €142bn, with a strong book to bill ratio of 1.13x. Earnings beat consensus estimates as earnings before interest tax and amortisation (EBITA) were €2.4bn (est. €2.2bn), up 7%. EBITA margins were flat excluding severance at 11.7%. The underlying units posted mixed performance. The troubled Power and Gas segment saw revenues decline but margins improve. Both Energy management and Building Technology segments posted marginal revenue growth and flat margins. Digital Factory posted 2% LFL growth, with a slight deterioration in margin to 19.6%. Siemens Healthineers also posted strong numbers with revenue growth and margin expansion.

As part of Siemens Vision 2020+ plan, to break up the conglomerate structure by independently listing and merging its underlying units, management confirmed its intention to list its Power and Gas business. The new entity will include Siemen's 59% stake in Siemens Gamesa, its renewable energy business. Management confirmed guidance and expects favourable market conditions for its short cycle business. It reaffirmed a bill to book well over 1, margin between 11% and 12% and earnings per share (EPS) is guided between €6.30-€7.00.

Comment

This was a very strong result for Siemen's and the market has reacted in kind. Firstly, progress on its Vision 2020+ strategy is welcomed given the setback regarding the merger of its rail unit with French rival Alstom, which was blocked by the EU. However, a listing of the Power and Gas business will be a challenging process, especially with expectations that Siemens plan on retaining less than 50% of the new entity. Underlying performance across the business units was also encouraging. Revenue growth, while low, was encouraging along with strong earnings growth and stable margins which can be seen in this morning's price movement. Considering our expectation that we are in a late cycle environment and expect less cyclically sensitive names to outperform we would not advise clients adding or increasing exposure to Siemens. However, taking a multiyear view, we like management's strategy to decentralize control of the underlying units and believe it will deliver value for shareholders over time but again expect shorter term operating headwinds likely to constraint its share price over the coming months. We are moving Siemens from outperform to market perform.

Pierce Byrne, CFA | Investment Analyst

Grafton - Group revenue growth slowing. Lower our recommendation Closing price: £8.70

News

Grafton Group plc, the international builders merchanting and DIY Group, issued a trading update for the period 1 January 2019 to 30 April 2019 in advance of its Annual General Meeting which will be held at 10.30am today.

Group revenue for the four months to 30 April increased by 6.1% (6.4% LFL) to £962 million. Revenue growth was led by its Irish retailing (Woodies) division and Belgium/Irish merchanting division. The largest division, UK merchanting, grew by 4.8% in the first four months of the year.

Gavin Slark, Chief Executive Officer of Grafton Group plc commented today:
"The Group had a positive start to the year and we should continue to benefit from the momentum in our Irish and Dutch businesses. Underlying demand in the UK RMI market remains relatively subdued and we continue to focus on realising the benefits from the investments we have made in recent years into our higher margin Selco and Leyland SDM businesses."

Comment

Grafton Group has continued to report an improvement in sales momentum year to date but revenue growth of 6% is running below that of FY 2018 revenue growth rate of 9%. For the same period last year, Grafton Group reported 1.3% LFL sales growth impacted by low temperatures and adverse weather in March/April 2018. As a result, comparable organic data in 2019 had a lower base to work off.

With Grafton Group shares now trading up close to record highs of £8.95 and trading on 14.5x 2019 earnings and 1.5x book value, we consider Grafton Group to be fully valued relative to company fundamentals (1.5x book value relative to c.9-10% ROE) and relative to the recent signs of weakness in the UK construction market.

A recent report from the Office of National Statistics reported that UK builders volumes fell by 3.4% month on month during January, the largest decline in six years. This weakness has sustained through April 2019 with some construction company shares falling as they lowered their profit guidance. We would use the current strength, + 40% YTD, in Grafton Group shares to sell and take some profit ahead of increased volatility around Brexit and Europe/US trade concerns.

Darren McKinley, CFA | Senior Equity Analyst

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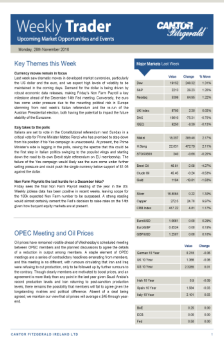

Weekly Trader

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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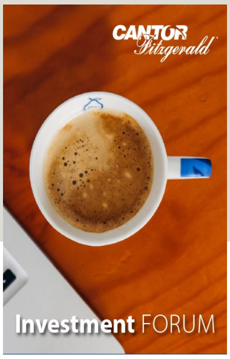

Investment Forum

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Siemens: Siemens AG is an engineering and manufacturing company. The Company focuses on four major business sectors including infrastructure and cities, healthcare, industry and energy.
Grafton Group: Grafton Group PLC manufactures and retails building supplies

Historical Recommendation:

Siemens: We changed our rating from Outperform to Market Perform on the 08/05/2019
Grafton Group: We lowered our recommendation from Outperform to Underperform on the 08/05/2019

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