Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

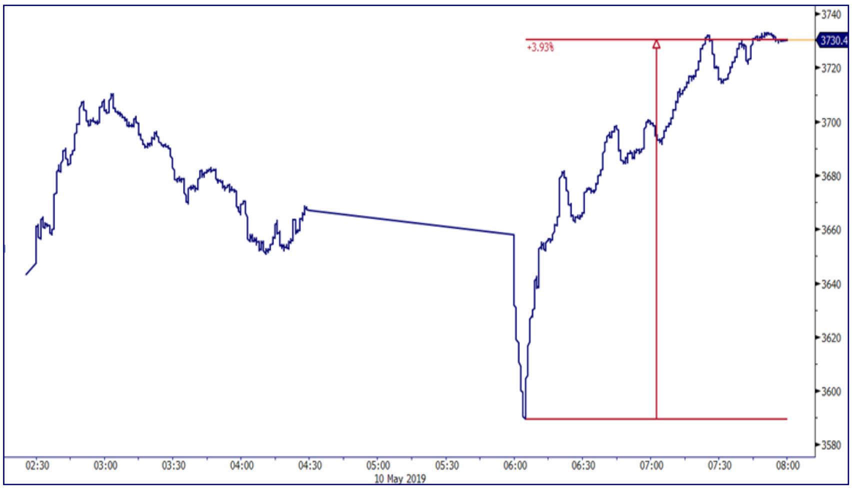
Friday, 10th May 2019

Morning Round Up

FBD Group update ahead of AGM
FBD Group released a brief statement ahead of remarks from the Chairman of the Board, Liam Herlihy, at today's AGM. There were no performance figures published, but the statement confirms year to date trading has been good. Underlying profitability remains sound on strong underwriting and pricing discipline, as well as benign weather so far this year. Investment returns have improved after an exceptionally weak Q4 2018; however, the overall returns environment remains challenging. Finally, management highlighting Brexit as an overhanging risk to its largest customer pool with continued preparation to support those customers amid uncertainty. No significant information in this morning's release and we maintain a positive outlook for FBD. We note that a full year with no extreme weather events as well as improved investment returns could lead to better than expected earnings and dividend. We continue to advise clients to add to holdings below €9.

IAG's FY guidance implies attractive valuation
IAG (British Airways, Iberia, Vueling, Aerlingus) released its Q1 financial results this morning reporting EBIT of €135m relative to consensus at €187m, down 62% over the last year. Fuel cost and revenue per seat pressure were the two largest items to negatively impact profits. Q1 revenue per seat declined by 1.4%, load factor for April was 83% and traffic grew by 6.1% in Q1. Despite weak Q1 results, they outperformed many peers who actually reported a loss for Q1 including Air France, Easyjet and Lufthansa. IAG management, led by Willie Walsh, continue to guide that FY 2019 earnings will be in line with FY 2018 – which if holds up would imply that IAG trades on 5x earnings which looks very attractive. IAG trades with an annualised dividend yield of 5.6%. Due to a special dividend, IAG will pay shareholders an 8% yield on July 5th. Given IAG's strong balance sheet and relatively high ROIC of 15% and guidance for an improvement in growth momentum from here, its shares should hold the technical support at £5 particularly as investors hold on for the special dividend.

Shanghai Shenzhen CSI 300 Index Intraday Chart 10/05/2019



Source: Bloomberg, CF Research May 2019

Key Upcoming Events

23/05/2019 EU Parliament Elections

Market View

US markets finished weaker as trade tensions continue to mount. President Trump has increased tariffs to 25% on $200bn as off 12:01 today. Asian shares had a remarkably volatile day with Shanghai finishing up 3.1% after slipping into negative territory half way through the day. Europe has opened higher on hopes a deal can still be done as Beijing took no immediate retaliatory action. The market will be watching Washington today as Vice Premier Liu He concludes negotiations with US officials. On the data front, the UK will publish a raft of economic data including Q1 GDP, while US inflation data is due later in the afternoon.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25828	-138.97	-0.54%	10.72%
S&P	2871	-8.70	-0.30%	14.52%
Nasdaq	7911	-32.73	-0.41%	19.22%
Nikkei	21345	-57.21	-0.27%	6.65%
Hang Seng	28550	239.17	0.84%	10.46%
Brent Oil	70.77	0.38	0.54%	31.54%
WTI Oil	62.12	0.42	0.68%	36.80%
Gold	1286	1.71	0.13%	0.26%
€/$	1.1233	0.00	0.16%	-2.04%
€/£	0.8635	0.00	0.15%	-3.95%
£/$	1.3009	0.00	-0.04%	2.00%

	Yield	Change
German 10 Year	-0.034	0.01
UK 10 Year	1.131	0.01
US 10 Year	2.4547	0.01
Irish 10 Year	0.545	0.03
Spain 10 Year	0.975	-0.01
Italy 10 Year	2.66	-0.0240

Source: Bloomberg, CF Research May 2019

IPL Plastics - In line figures provide positive start to FY19

Closing price: C$9.34

News

IPL Plastic released Q1 results yesterday, which were broadly in line with expectations and showed some positive trends developing. Revenues contracted on a year on year (yoy) basis by 4.4% to $141.8mln (Q1 18 $148.3). Revenues were lower on FX headwinds and lower volumes in Returnable Packaging Solutions (RPS), which were somewhat offset by price increases across the business. Gross profit grew by 6.6% to $26.2mln and adjusted EBITDA increased by 1.2% to $17.3mln. Margins improved on a group level with gross profit margin of 18.5% (Q1 18 16.6%) and adj. EBITDA margin of 12.2% (Q1 18 11.5%). Cash flow also improved to -$5.1mln from -$19.9mln. The recent acquisition of Loomans completed and is trading in line with expectations, management also reiterated its net debt to EBITDA target of 2.7x by year end.

Looking at the underlying divisions, Consumer Packaging Solutions (CPS) and Large Format Packaging and Environmental Solutions (LF&E) both performed well, while RPS was hit by several issues. CPS saw increased volumes and margin expansion. Margins increased by 90bps to 16.9% in Q1. LF&E also generated strong margin expansion, increasing 360bps to 14.6%. Volumes were broadly in line with Q1 18. Finally, issues flagged in IPL's FY18 results saw margins fall by 790bps to 5.7% due to volume declines. The division's agricultural bins were hit by severe bad weather in North America, while its automotive bin issues are being addressed and it remains an attractive product line going forward.

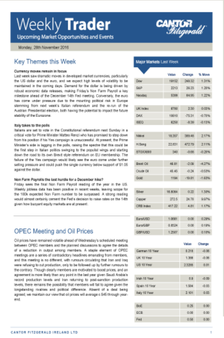
Guidance included continued expectation that margins will expand, and resin pricing has stabilised. Modest increases in Q2 resin prices are expected. CPS and LF&E are expected to continue to trade in line with expectations and RPS is expected to deliver adjusted EBIT at least in line with FY18. The Loomans acquisition should further add to these expectations.

Comment

Yesterday's results show an encouraging start to FY19 for IPL. CPS and LF&E both posted encouraging performance considering labour and freight cost inflation. Resin prices have stabilised, and management are better prepared to manage its primary input cost going forward. RPS difficulties are disappointing, however, these issues should be temporary. The slowing trend in revenue is also concerning, which we will be watching over the coming quarters. Weaker sales performance in North American LF&E was offset by strong European performance. An accumulation of issues since its listing in Toronto, resin pricing in FY18 and RPS difficulties in Q1 19, have hampered valuations. We expect continued improvement in margins and resolution of temporary issues to drive valuations higher. The stock is currently trading at 5.8x enterprise value to forward EBITDA, well below a fair value in our opinion. As margin improves on the back of operating efficiencies, temporary headwinds ease and a return to revenue growth, we would expect multiples to increase to c. 7.5x. We retain an outperform rating on IPL Plastic.

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.

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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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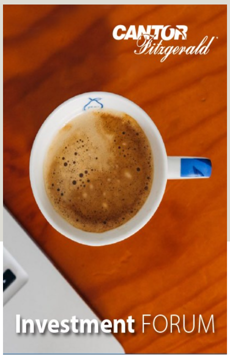

Investment Forum

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

[Click here]

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

IPL Plastics: IPL manufactures specialty packaging products such as film seals, lids, overcaps, resins, and containers used primarily in food and consumer, agricultural, logistics, and environmental end-markets.

Historical Recommendation:

IPL Plastics: We have an Outperform on rating on IPL Plastics since 17/7/15 changing to Outperform from Not Rated.

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