Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

Tuesday, 14th May 2019

Morning Round Up

Trade remains top of the agenda for markets

Trade headlines will continue to dominate market price action in the near term as the potential for a further escalation in tariffs heightens fears over global growth. Mixed messages from White House continued yesterday as it released a list of a further $300bn worth Chinese goods that could be taxed at 25% while also confirming that Trump will meet President Xi at next months G20 summit. Along with this Trump maintained a positive tone when speaking about the likelihood of a deal saying he had a "feeling" that a trade deal will be successful. This follows retaliation from China, who confirmed it plans to raise duties on $60bn worth of US imports from the 1st of June. The tit for tat dispute and the potential ramification for global growth has led to a significant sell of in markets over the past week. We continue to advise clients to be cautious when investing at present. Given the uncertainty our preference remains for a defensive allocation in the immediate term.

German data falls short of estimates

German investor confidence in the growth outlook weakened considerably in May, significantly missing expectations. Concerns that global trade tensions between the US and China will spill over and weigh on German exports are mounting. A gauge(ZEW) measuring prospects for the next six months dropped to minus 2.1 in May. Economists had expected a slight increase to 5 from 3.1 in April. Germany will release Q1 GDP figures on Wednesday with surveys expecting 0.4% growth, following 0% in Q4 2018.

Bayer drops to lowest level in almost 7 years

Bayer's stock price has fallen by over 3% this morning after it was ordered to pay more than $2bn in damages to a Californian couple that claimed they were given cancer as a result of using its Roundup weedkiller for close to 30 years. The sizeable compensation has led Bayer's stock price to drop to its lowest level in nearly seven years as the lawsuits continue to mount. Since acquiring Monsanto (for which it inherited the litigation battles) for $63bn last June, Bayer has lost over 40% of its market value. At present the controversy does not look like abating any time soon with Monsanto named as defendant in similar US lawsuits filed by 13,400 plaintiffs. Given the issue is likely to get worse before its get better we advise clients against investing in Bayer at present.

Bayer 10 year stock price

Source: Bloomberg, CF Research May 2019

Key Upcoming Events

23/05/2019 EU Parliament Elections

Market View

After a difficult couple of days for risk assets equities rose this morning, alleviating some of the losses experienced over the past week. US - China trade relations continue to dominate headlines sending US markets down a further 2% yesterday. The latest news on the issue being the retaliatory measures taken by China, specifically targeting US farmers. Bond yields have risen slightly with the US 10 year yield back above 2.41%. Elsewhere, oil slipped below $61 (WTI) a barrel as investors weighed supply concerns from tensions in the middle east against the potential fall in demand as a result of an escalation in the trade dispute.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25325	-617.38	-2.38%	8.56%
S&P	2812	-69.53	-2.41%	12.17%
Nasdaq	7647	-269.92	-3.41%	15.25%
Nikkei	21067	-124.05	-0.59%	5.26%
Hang Seng	28122	-428.22	-1.50%	8.81%
Brent Oil	70.07	-0.16	-0.23%	30.24%
WTI Oil	60.96	-0.08	-0.13%	34.24%
Gold	1298	-2.09	-0.16%	1.20%
€/$	1.1238	0.00	0.14%	-2.00%
€/£	0.8678	0.00	0.21%	-3.46%
£/$	1.295	0.00	-0.06%	1.54%

	Yield	Change
German 10 Year	-0.062	0.01
UK 10 Year	1.113	0.01
US 10 Year	2.4139	0.01
Irish 10 Year	0.526	0.01
Spain 10 Year	0.989	0.00
Italy 10 Year	2.71	0.0100

Source: Bloomberg, CF Research May 2019

Allianz - Another consistent quarter from Alliance Closing price: €198.90

News

Allianz reported strong results this morning after a good start to FY19. Revenues were €40.3bn in Q1 up 9.1% on Q118 on a constant currency and consolidated basis. Operating profit was up 7.5% to €2.96bn (est. €2.85bn). Solvency II capital ratio was 218%, with a group return on equity of 13.7%. Management confirm full year operating profit guidance of €11.5bn (+/- €0.5bn). Looking at the different business lines, Property and Casualty (P&C) deliver strong revenue growth, +6.3%, and strong profit growth, +14.2%. The unit's combined operating ratio was 1.1% lower at 93.7% on the back of lower natural catastrophe (NatCat) losses. Life and Health, also performed well, with revenues up 12.9%. The present value of new business was €17.6bn written at a 3.5% margin. Operating profit was marginally higher, +2.5%, despite weak investment returns. Asset management performed well in a difficult marketplace. Revenues were flat in the unit, and the cost income ratio was higher at 63.7%, leaving its contribution to operating profit 3.7% lower. Assets under management (AUM) grew to €2.1tn, with third party AUM up 7.8% to €1.54tr on the back of €18bn in third party in flows in Q1 and market moves.

Comment

Another strong quarter for Allianz, showing consistency in performance in a challenging backdrop for European financials. Underlying performance of its two major insurance segments were very strong aided by lower NatCat losses on the P&C side. Asset management continues to be difficult business given volatility across financial markets, however, Allianz Global Investors and Pimco continue to attract assets which is impressive considering most managers are experiencing outflows. A combination of its strong management team and balance sheet strength make it the standout business among European financials. We expect it to continue to provide moderate growth, a dividend yield of c. 5% and management are running a share buyback worth €1.5bn announced in February. Longer term, the financial sector and insurers are geared to a higher interest rate world, but Allianz is coping best in the current interest rate environment. We advise clients to increase allocations on any macro weakness and maintain an outperform rating.

Pierce Byrne, CFA | Investment Analyst

Vodafone - Management cut dividend to prioritise deleveraging Closing price: €131.78

News

Management put an end to the speculation relating to its dividend, cutting it to 9c, after a challenging FY19. Full year revenue missed expectation at €43.67bn (est. €45.17), down 6.2% on FY18 reflect amongst other items FX headwinds and accounting changes. Adjusted EBITDA was 4.1% lower at €14.13bn (est. €14.19). Free cash flow pre spectrum was in line with guidance at €5.5b. Management delivered consistent guidance expecting FY20 adjusted EBITDA between €13.8-€14.2bn and free cash flow pre spectrum of at least €5.4bn. The board announced a final dividend of 4.16c, bringing the full year dividend to 9c representing a 40% cut on FY18.

Looking at the underlying divisions, European Consumer (49% of service revenues) saw revenues decline by 1.1%. Fixed line products produced growth, while mobile saw declines. Excluding Spain and Italy, the division saw revenue growth of 2.7%. The fixed line business is expanded its next generation networks (NGN) marketable homes to 122mln homes at period end. Vodafone business (30% of serviced revenues) posted growth of 0.3%, with fixed line adding to revenues and mobile posting modest declines. Finally, the emerging consumer (16% of service revenue), the segment saw 8.2% declines in revenue on a sharp devaluation of the Turkish Lira. The dividend cut comes as Vodafone's balance sheet health is questioned by investors due to the level of debt. Net debt stood at €27bn. As part of the strategy to address this, management have cut the dividend, sold its New Zealand business (€2.1bn) and preparing some of its tower infrastructure for monetisation.

Comment

The question over Vodafone's balance sheet has weighed heavily on the stock since it announced the acquisition of Liberty Global's European assets in May and CEO, Vittorio Colao, stepped down shortly after. The market's concerns regarding leverage have been heeded by the new CEO, Nick Read, and the focus on deleveraging is welcomed. Management are targeting the lower end of a range between 2.5x-3x net debt to EBITDA in 12 months' time. We continue to like managements European focused strategy and prioritising the roll out of 5G (roll out in 50 cities in FY20). Considering a dividend cut, it is encouraging that management are maintaining operational guidance with EBITDA and free cash flow broadly in line with FY19. In our opinion, this is an important reflection of the underlying business model's ability to deliver strong metrics. Vodafone is facing several challenges including competition in Spain (stabilised) and Italy (moderating), its Turkish exposure and the possibility of additional capital for its JV in India. However, we remain confident that the broadening of its network in Europe will be successful. Looking at the performance of VodafoneZiggo (its JV in the Netherlands with Liberty Global) and using this as a template to deliver synergies and growth ahead of expectations, after it begins the integration process. We expect today's announcement to spark an improved outlook for Vodafone, as it addresses the financial health of its balance sheet, and management start to capitalise on the economies of scale that its network footprint can deliver. A 9c full year dividend still represents a yield of c. 6%, well ahead of the broader market. Vodafone currently trades at 5.2x EV/EBITDA and we would expect this to improve above 6x on improved balance sheet health. We maintain an outperform rating on Vodafone.

Pierce Byrne, CFA | Senior Equity Analyst

DCC - Impressive record continues Closing price: £64.86

News

DCC released a solid set of FY19 results this morning as profits grew by double digits and it announced three acquisitions. Revenue was the minor miss growing by 6.8% to £15.23bn (vs analyst expectations of £15.57bn). Operating profit grew by 20.1% to £460.5m, in line with expectations, as all four underlying divisions performed well. This was particularly impressive given the warmer than average weather conditions in February and March. EPS grew by 12.8% to £3.58, again in line with expectations. Free cash flow grew by 32% to £434.0m. This represented an impressive 94% conversion of operating profit. Return on Capital Employed remained healthy at 17% (FY18 17.5%). The slight drop reflecting the impact of recent acquisitions. The Board is recommending an increase of 13.7% in the final dividend to 93.37p per share, which would bring the total dividend to £1.38, a 12.5% increase on the previous year. This represents the 25th year of dividend growth. Importantly, net debt at the end of the year fell to £18.4m, leaving plenty of room for further M&A. Management has guided for another year of profit growth.

All four underling divisions displayed double digit operating profit growth during the year (DCC LPG +20.5%, DCC Retail and Oil +17.6%, DCC Technology +35.1%, DCC Healthcare +11.1%). Three further acquisitions with a total value of c.£90m were announced this morning . In April, DCC LPG acquired Pacific Coast Energy, an LPG distribution business in the North West of the US for an enterprise value of £30m. DCC Technology announced the agreement to acquire both Comm—Tec GmbH (“Comm - Tec”) in Germany and Amacom Holding BV in the Netherlands. Further to this, DCC Retail and Oil agreed to create a new branded marketing and distribution aviation business with Shell aviation. Management will hold a conference call at 9am to discuss the results.

Comment

Since listing as a public company 25 years ago, DCC has an unbroken record of dividend growth with a compound annual growth rate of 14.4%, a feat rarely matched. These were another strong set of results, with the 2% revenue miss the minor negative. Profit growth was noteworthy across all four of its underlying businesses. Cash flow generation was better than expected with an impressive 94% conversion rate. On the M&A side, the three acquisitions announced bring the total spend this year to £370m. All of which appear to be integrating well. Despite this level of capital committed, net debt at the end of the year stood at just £18.4m, leaving significant capacity for further M&A in the near term. As a well diversified business, displaying strong organic and inorganic growth across segments we continue to see further upside to the current stock price. We maintain our Outperform rating, however, given its more cyclical nature it may be hampered by macroeconomic headwinds in the short term.

David Fahy, CFA | Investment Analyst

Applegreen - Valuations most compelling since IPO

Closing price: €4.94

News

Applegreen shares have traded back to €4.94 this morning, down from a high of €6.50 recently. At the current share price, Applegreen trades at 15x 2019 earnings and 1.1x book value. We expect Applegreen to deliver 25% growth in earnings per share in 2019 and 20% in 2020.

Applegreen is a convenience food and beverage retailer and operator of petrol forecourts and motorway service areas with a major presence in the Republic of Ireland, the United Kingdom and the USA. From an operational base of 64 sites at the end of 2009, the Group has grown to 472 sites as at 31 December 2018, across the Republic of Ireland (193 sites & €136m Gross Profit), United Kingdom (158 sites & €102m GP) and United States (121 sites & €44.4m GP) and has 10,700 employees. Applegreen is a market leading Motorway Service Area operator in the Republic of Ireland and the number two Motorway Service Area operator in the United Kingdom. Following the Welcome Break acquisition, new brand partners include Starbucks, Waitrose, WH Smith, KFC, Pizza Express, Harry Ramsden and the Ramada and Days Inn hotel brands. These are in addition to existing brands including Burger King, Subway, Costa Coffee, Greggs, Lavazza, Chopstix, Freshii and 7-Eleven, some of which also have an existing presence on the Welcome Break network.

To summarise its FY 2018 results, on an organic basis Applegreen reported €1.9bn of revenue (+32% YoY), €241m of gross profit (+33% YoY), EBITDA of €47.8m (+20% YoY) and 25.4c earnings per share (+2% YoY). Earnings per share was impacted by the share placement to fund Welcome Break acquisition. When the Welcome Break acquisition is included, Applegreen delivered €58m of EBITDA and €282m in gross profit for FY 2018. Applegreen acquired 50.01% of Welcome Break in October 2018 and we expect H1 2019 results due in September to be very strong as this acquisition is bedded in.

Comment

Applegreen shares have traded down on low liquidity. The higher leverage and share dilution from the Welcome Break acquisition have weighed on earnings growth in the short term and has resulted in a de-rating in Applegreen shares to 15x earnings – the cheapest valuation since IPO.

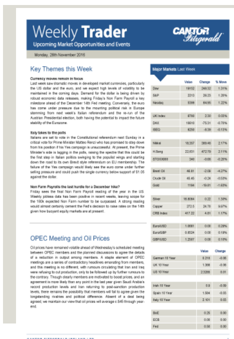
We expect Applegreen to report a significant improvement in earnings growth in H1 2019 as the share dilution is offset by full contribution from Welcome Break for the period. In addition, Cross America's 43 leasehold assets acquired in October 2018 will also contribute in the current period.

We also see catalysts in the short term including the possible sale of hotel assets in the UK and further acquisitions of leasehold assets in the US given that this the market which offers the most growth prospects.

Longer term, we have confidence in management to deliver value for shareholders as highlighted by their strategic moves to integrate the business by buying 50% stake in Dublin Port fuel terminal in 2016, continued focus on developing the food offering with more in house products including their own vegan sausage roll offering announced today and focus on cloning the successful Irish business model across the UK and US through relatively cheap acquisitions in UK and leasehold of assets in the US. The increased leverage and leasing of assets should drive shareholder return on equity and lead to a re-rating in valuation over the next 12 months.

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.

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Monthly Investment Journal

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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)

DCC: DCC is a sales, marketing, distribution and business support services company.
Allianz: Allianz, through it subsidiaries, provides insurance and financial services.
Applegreen: Applegreen operates service stations in Ireland, the UK and US.
Vodafone: is a mobile telecommunications company providing a range of services, including voice and data communications

Historical Recommendation:

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated
Allianz: We have been positive on Core Portfolio stock, Allianz since 24/04/14 and no changes have been made to the recommendation since then.
Applegreen: We have moved this stock to Outperform from Market Perform as at the 01/10/2018
Vodafone: We have been positive on Vodafone's outlook since 04/02/14 and no changes have been made to this recommendation in the last 12 months

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

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