

Friday, 17th May 2019

Morning Round Up

Walmart's International division weighs on group profits

Walmart released Q1 2020 financial results yesterday reporting net sales grew by 1.1% (1.9% in Q4 2019), operating income declined by 4.1% (+7.4% in FY 2019), gross profit margin declined by 27bps to 24.3% and debt to equity ratio increased by 7% to 46%. Both operating and free cash flow fell significantly over the year mainly related to an inventory build. The stock rose yesterday as headlines read that Q1 growth in the US was strongest in nine years at 3.3% but we would highlight that this was down from 4.1% in Q4 2018. Walmart's international business reported that net sales declined by 4.9% YoY and operating income declined by 42%. Walmart shares rallied to resistance at \$104 yesterday but sold off over the course of the day. At 21x earnings and with poor earnings trends mainly due to international and profit margin headwinds (Tariffs, Amazon competition), we see limited upside and risks of asset impairments in short term.

Falcon Oil & Gas - Capital raising announced

Falcon Oil & Gas which explores for unconventional oil and gas in Australia and South Africa has announced a \$10m share placing this morning. The net proceeds of the Placing will primarily be used to fund Falcon's share of estimated capital expenditure in respect of the drilling and hydraulic fracture stimulation of four horizontal wells in the Beetaloo Sub-basin, Australia (further details of which are provided below). Falcon Australia owns 30% on three exploration permits in the Beetaloo Sub-Basin. Falcon had previously sold 70% in a \$200m farm out to Origin Enterprise who is the Beetaloo operator. The share placing is at a 25% discount to the share price recorded in Q1 of this, when the shares rallied post the assigning of a rig by Origin to drill additional wells.

EasyJet rises on H1/19 results

EasyJet has risen by 5% this morning after reporting half year results that were in line with its expectations and it reiterated guidance for the full year despite the difficult yield environment. The bounce in the stock price comes after 10 days of straight losses. As was somewhat expected (and reflected in the price) management downgraded its outlook for revenue per seat guidance for the second half of the year from "slightly up" to "slightly down". However, it expects to maintain its original profit guidance for the year through cost reductions. The release confirmed the primary figure issued last month that the company suffered a £275m pre-tax loss for the first six months of the year. Ryanair, who report this coming Monday, also rose over 2% on the news.

EasyJet one year stock price



Source: Bloomberg, CF Research May 2019

Key Upcoming Events

23/05/2019 EU Parliament Elections
01/06/2019 Chinese Tariff Deadline
28-29/06/2019 G20 Summit

Market View

European stocks followed Asian stocks lower this morning after signals from China that they were to take a tougher line on trade with the US. Carmakers and retailers led the declines in Europe this morning. It seems that volatility from headlines on trade will continue up until the G20 meeting next month at least. Elsewhere, the pound was lower this morning as UK Prime Minister, Theresa May, agreed to set a timeline to quit. Oil has risen back above \$63 (WTI) as concerns over global supplies outweigh trade fears. The US 10 year yield has fallen back below 2.40% and the German 10 year remains below -10bps.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25863	214.66	0.84%	10.87%
S&P	2876	25.36	0.89%	14.74%
Nasdaq	7898	75.90	0.97%	19.03%
Nikkei	21250	187.11	0.89%	6.17%
Hang Seng	27946	-328.61	-1.16%	8.13%
Brent Oil	72.67	0.05	0.07%	35.07%
WTI Oil	63.06	0.19	0.30%	38.87%
Gold	1287	0.15	0.01%	0.34%
€/\$	1.1175	0.00	0.01%	-2.55%
€/£	0.8744	0.00	0.13%	-2.74%
£/\$	1.2781	0.00	-0.13%	0.21%

	Yield	Change
German 10 Year	-0.109	-0.01
UK 10 Year	1.053	-0.02
US 10 Year	2.382	-0.01
Irish 10 Year	0.468	-0.02
Spain 10 Year	0.855	-0.05
Italy 10 Year	2.65	-0.0320

Source: Bloomberg, CF Research May 2019

Irish Continental Group - Looking ahead to the summer period

Closing price:€4.76

News

Irish Continental Group released a solid trading update this morning as group revenues rose and it confirmed a number of business developments. Consolidated Group revenue, up until the 30th of April, rose by 6.1% yoy to €102.3m. Net debt remained healthy but rose from €80.3m to €88.4m. Total revenues within the Ferries division decreased by 1.1% to €51.7m. This was principally due to the planned suspension of the of the fastcraft sailings in the off peak season. However, management noted the negative effect of Brexit. As a result car volumes (-8.5% period up until May 11th) were weaker. RoRo Freight volumes remained robust (+6.6%). In the Container and Terminal Division, total revenues rose by 13.7% to €52.3m, driven by volumes (Container Freight +8.9% and Terminal Lifts +7.5%), increased fuel surcharge and additional ancillaries.

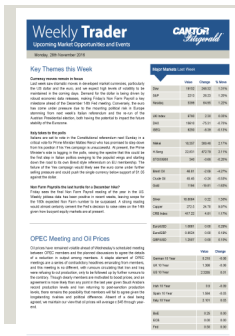
The release also confirmed that it had taken delivery of the container vessel Thetis D, built in 2009 with a 1421 teu container capacity. The vessel has been on charter since purchase. This brings the total container fleet to five. It also confirmed it has entered into a hire purchase agreement for the sale of the vessel Oscar Wilde to buyers MSC Mediterranean Shipping Company SA for an agreed consideration of €28.9 million, payable in instalments over 6 years. The vessel was delivered to the buyer on the 25th of April. At Belfast Port where the Group operates the sole container terminal at Victoria Terminal Three, a 6 year extension to the current service concession agreement has been concluded with Belfast Harbour Commissioners ("BHC").

Comment

A solid update this morning confirming strength across the business. As it is the off season for tourism the read through for weakness in Cars volumes is somewhat limited. With the W.B Yeats now sailing, we expect a significant pick up this summer from last year. The remaining portions of the business performed well. However, higher fuel costs are likely having an effect on profitability. Given the strategic developments the company is well placed for the remainder of the year. Brexit remains the major concern with the outcome a driver of the stock price. We maintain our Outperform rating on the stock.

David Fahy, CFA | Investment Analyst

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Irish Continental Group plc: ICG markets holiday packages and provides passenger transport, roll-on and roll-off freight transport, and container lift on and lift-off freight services between Ireland, the United Kingdom and Continental Europe

Historical Recommendation:

Irish Continental Group plc: We moved our rating from Under Review to Outperform on the 26/11/2018

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Dublin: 75 St. Stephen's Green, Dublin 2. Tel: +353 1 633 3633.

email : ireland@cantor.com web : www.cantorfitzgerald.ie



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