

Wednesday, 12<sup>th</sup> June 2019

## Morning Round Up

### Conservative leadership battle heats up

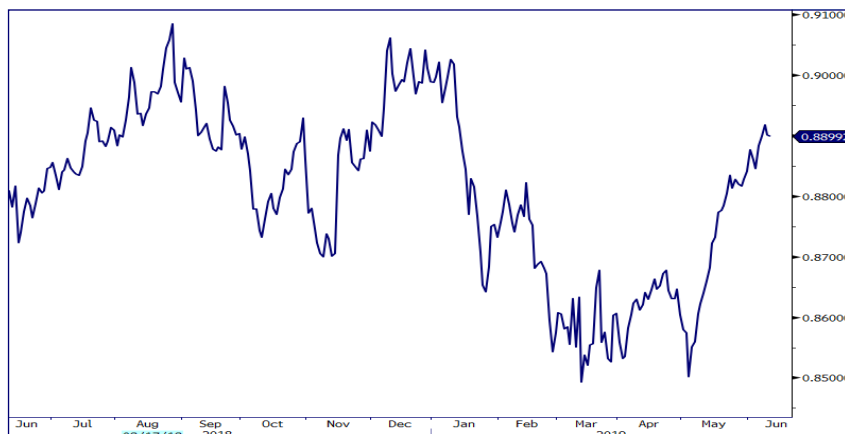
Boris Johnson officially launches his platform for the leadership of the Tory party today. While drug use was temporality brought to the fore of debate due Michael Gove's admission, the main issue (possibly the only issue) of concern is Brexit. Mr Johnson is expected to take the position that Britain will leave with or without a deal on the 31<sup>st</sup> of October. With similar positions from Andrea Leadsom and Sajid Javid. Mark Harper has positioned himself in the renegotiation camp saying it was not possible for an orderly exit of the EU by October. As well as Cabinet Minister Rory Stewart looking to get Mrs May's withdrawal agreement through parliament. Meanwhile, the opposition parties are banding together to seize control of parliament to introduce legislation to stop a no deal Brexit and prevent a suspension of parliament to force through a disorderly exit.

Looking to the next steps in the Conservative leadership race, the ten declared candidates will face a secret ballot of the parliamentary party on the 13<sup>th</sup> of June. A series of consecutive ballots follows, which will narrow the field to two candidates. The final two candidate will then be put to the wider 160,000 party membership to select a leader. The process is expected to run into the week beginning the 22<sup>nd</sup> of July. The implications of this process on equity markets is uncertain. We would expect volatility to increase as the probability of a harder Brexit increases with the likelihood of a hard Brexiter, such as Boris Johnson, gets closer to the top job. We would expect to see selling across both Irish and UK equities. We would also expect sterling to weaken further against the Euro above a £0.90 level.

### Ryanair acquires Malta Air

Ryanair has announced that it has agreed to purchase Malta Air, a Maltese start up airline, into which Ryanair will move and grow its Malta based fleet of 6 aircraft. Malta Air will continue to use its current name. It will fall under the umbrella structure alongside Ryanair DAC, Buzz (Poland) and Laudamotion (Austria). The investment will help Ryanair increase its current 3m passengers annually as it looks to increase the fleet to 10 aircraft over the next three years. This was a positive announcement from management. It continues to take advantage of smaller M&A opportunities in high growth markets with the subsidiaries all utilizing the low cost model. Importantly, Ryanair is continuing to expand profitably despite the difficult macroeconomic backdrop. While we do see potential for further weakness over the short term (faltering industry demand over the summer period), Ryanair's longer term outlook and investment case remains strong.

### One year EUR/GBP



Source: Bloomberg, CF Research June 2019

### Key Upcoming Events

19/06/2019 FOMC Decision  
20/06/2019 BoJ Decision  
28-29/06/2019 G20 Summit

### Market View

Equity markets are weaker this morning as global trade relations and faltering global growth add to volatility. Trump has continued to blame the Fed for its interest rates which are "way to high". The market will look toward inflation data this afternoon to help gauge the direction the Fed may take at its next meeting. Global bond yields remain constraint with the US 10 year yield down to 2.12% and the German 10 year yield at -23bps. The pound continues to weaken on Brexit uncertainty. It is now at 5 month lows relative to the euro (EUR/GBP £0.89). Oil has fallen by 2% this morning after a larger than expected inventory build in the US overnight.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26049	-14.17	-0.05%	11.66%
S&P	2886	-1.01	-0.03%	15.11%
Nasdaq	7823	-0.60	-0.01%	17.89%
Nikkei	21130	-74.56	-0.35%	5.57%
Hang Seng	27275	-514.44	-1.85%	5.53%
Brent Oil	61.15	-1.14	-1.83%	13.66%
WTI Oil	52.07	-1.20	-2.25%	14.67%
Gold	1338	11.26	0.85%	4.34%
€/\$	1.134	0.00	0.12%	-1.11%
€/£	0.8900	0.00	-0.02%	-1.00%
£/\$	1.2742	0.00	0.13%	-0.09%

	Yield	Change
German 10 Year	-0.233	0.00
UK 10 Year	0.844	-0.02
US 10 Year	2.1205	-0.02
Irish 10 Year	0.305	-0.01
Spain 10 Year	0.582	0.00
Italy 10 Year	2.37	-0.0240

Source: Bloomberg, CF Research June 2019

**Cairn Homes - Citywest transaction would boost visibility**

Closing price: €1.25

**News**

Newspaper reports this morning that Cairn homes is sale agreed on 282 units at Citywest for a price in excess of €90m. This institutional PRS sale follows on from the successful sale of Hanover Quay last year and adds to revenue, earnings and cashflow visibility in the medium term. The sale process which began in April and looks to have near completed already highlights how buoyant demand is for Dublin residential assets.

Cairn Homes received a number of positive planning outcomes of late, having received permission at Griffith Avenue, Blackrock and Rathgar. In addition, Cairn Homes got their Clonburris landbank assigned as a Strategic development zone which will help fast track planning for development in this location.

**Comment**

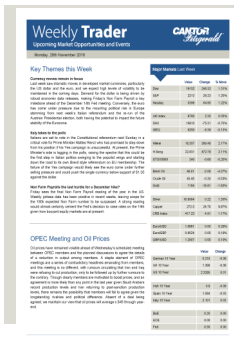
Cairn Homes shares have now corrected by 32% over the last year to trade at €1.25 this morning. At the current price, Cairn Homes trades on 12x 2020 net income and offers investors a 13% free cash flow yield and 6.7% forward dividend yield. They are due to pay a 2.5c dividend in September. Valuations are cheaper now than ever before – weighed down by Brexit uncertainty which we feel is now in the price.

Recent ECB commentary that interest rates will stay lower for longer supports the investment case for Cairn Homes. The speed of the sale process for Citywest implies that there is huge institutional demand for residential assets. Owner occupier demand remains strong also despite Brexit uncertainty weighing on it slightly.

We would use the weakness in Cairn Home shares to acquire a holding of c.5% of client portfolios as we are attracted to the valuation and the opportunity for cash distribution to shareholders over the short to medium term. Our fair value of €1.65 implies c.30% upside over the medium term.

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.

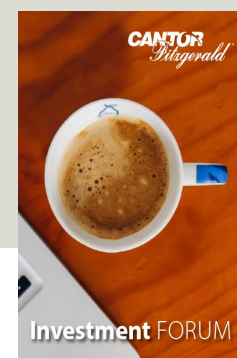
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Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

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## Regulatory Information

### Issuer Descriptions: (Source: Bloomberg)

**Cairn Homes PLC:** Cairn Homes provides construction services. The Company design and build homes. Cairn Homes operates in Ireland.

**Ryanair:** Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.

### Historical Recommendation:

**Cairn Homes PLC:** We initiated an Outperform rating on the 30/11/2018

**Ryanair:** Ryanair was added to the Core Portfolio at inception in and have had an Outperform recommendation since then

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