

Thursday, 04<sup>th</sup> July 2019

## Morning Round Up

### Service PMI remain above 50

Yesterday saw the complementary services and composite PMI data released after Monday's manufacturing numbers. The Service figures have remained above 50, however, they have been trending weaker. European services PMI came in at 53.6 ahead of consensus and up on the previous month. German services PMI was strong 55.8, while the French figure was weaker at 52.9. This in direct contrast to the manufacturing figures earlier in the week. In the UK, services PMI fell to 50.2 down from 51. China's Caixin Services PMI was also lower than the previous month at 52 versus 52.7. Finally in the US, Services PMI trended higher at 51.5 up from 50.9.

PMI data has been trending weaker, with many regions posting manufacturing numbers below 50 (the US and France being the exception). Services PMI followed later in the week indicating expansionary activity but trending weaker. PMI data is a leading indicator for the economy and a weakening trend indicates a weakening economy.

### First Derivates CEO sells 1.4mln shares

Brian Conlon sold 1.4mln shares at £30.60 yesterday, after an accelerated book build placed the shares. There was no reasoning for the transactions provided in the statement. The company confirmed that the business is trading in line with its recent update and that Mr Conlon, who is being treated for cancer, continues in his role as CEO.

### Flutter Entertainment jumps despite unknown catalyst

Flutter Entertainment, the rebranded Paddy Power Betfair, jumped 17% yesterday afternoon as speculation that it would be involved in a potential takeover hit headlines. However, management later confirmed it did not know of "any material reason" for the move. This stock finished up 11% yesterday and has risen by a further 1.7% today. Despite the speculation we remain unconvinced by Flutter Entertainments investment case particularly given its premium to peers. We maintain our Market Perform rating on the stock.

### Flutter Entertainment 5 year Price Chart



Source: Bloomberg, CF Research July 2019

### Key Upcoming Events

23/07/2019 UK PM Announcement  
 25/07/2019 ECB Decisions  
 30/07/2019 BoJ Decision  
 31/07/2019 Fed Decision

### Market View

European stocks moved higher this morning on lower volumes with US markets closed for Independence Day. The Stoxx Europe 600 Index was led higher by carmakers and banks this morning despite the German 10 year yield sitting on record lows. Oil fell back under \$57 a barrel (WTI) as initial optimism following OPEC's extension to production cuts faded. The dollar has held steady despite Donald Trump launching fresh accusation's at China and the European Union for manipulating their respective currencies. The pound is steady at 0.896 (EURGBP).

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26787	69.25	0.26%	14.83%
S&P	2973	8.68	0.29%	18.60%
Nasdaq	8109	17.93	0.22%	22.21%
Nikkei	21638	-116.11	-0.53%	8.11%
Hang Seng	28855	-20.42	-0.07%	11.64%
Brent Oil	62.28	-0.12	-0.19%	15.76%
WTI Oil	56.21	-0.04	-0.07%	23.78%
Gold	1423	4.44	0.31%	10.96%
€/\$	1.128	0.00	-0.04%	-1.63%
€/£	0.8973	0.00	0.13%	-0.18%
£/\$	1.257	0.00	-0.18%	-1.44%

	Yield	Change
German 10 Year	-0.395	-0.03
UK 10 Year	0.686	-0.04
US 10 Year	1.9481	-0.03
Irish 10 Year	0.093	-0.04
Spain 10 Year	0.21	-0.08
Italy 10 Year	1.75	-0.0870

Source: Bloomberg, CF Research July 2019

**Prudential** - Lays out the vision for M&GPrudential

Closing price: £17.68

**News**

Prudential held an Investor Conference yesterday, setting out the capabilities of the new demerged entity M&GPrudential. There was no timetable confirmed for the demerger. However, analysts are speculating an announcement could come with Prudential's half year report, with the transaction happening in H2 of this year.

The new entity will manage £321bn in assets, with £174bn of in-house funds and £147bn of external institutional and retail assets. The new entities largest market will be the UK with the overall business servicing 5.5mln retail customers and 900 institutional clients serving 28 countries. The business is looking to target the savings and investment market quoting an aging population, a widening savings gap and increasing cash deposits. Management are looking at €10tn cash deposit market as an opportunity for growth.

A key strength of the new entity will be its investment function, which has a strong track record off investing in-house funds as well as third party assets. The investment function has strong experience across both public and private assets resulting a strong multi asset offering to clients. Savings and Asset Management segment generated £468mln in operating profit in FY18, while its Heritage business delivered £1.16bn in operating profit.

**Comment**

Prudential has posted strong performance year to date and we believe the demerging can enhance the value to shareholders of the separate entities. However, the business is yet to disclose any major detail with regard outlook for the new businesses. As such we remain holders of Prudential and will assess the demerger proposal once published. We are expecting this announcement in the coming months.

Pierce Byrne, CFA | Investment Analyst

**C&C Group** - Hits 3 year highs following trading update

Closing price €3.93

**News**

C&C Group released an AGM trading update this morning, reiterating its guidance and confirming a "solid" start to the year. In the release, the Group confirmed that FY20 (beginning March 2019) was trading in line with current market expectations. After a "transformational" year in 2019, which saw the acquisition of Matthew Clark & Bibendum (MCB) contributing +20% to EPS growth, it reiterated its expectation of achieving double digit EPS growth in FY20 and mid to high single digit EPS growth thereafter.

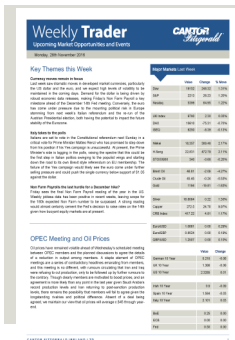
Following the acquisition of MCB, a majority of the Group's revenues, earnings and activities are now derived in and from the UK. As a result it is now seeking inclusion in a UK Index Series. To do so it will apply for cancellation of the listing and trading of C&C shares on Euronext Dublin.

**Comment**

A short but positive update this morning. The integration of MCB appears to have been successful with it set to add significantly to EPS growth over the medium term. Despite its growth trajectory its valuation remains relatively attractive with a 12m forward P/E of 13.7x. Given the 4% jump this morning, it has now risen by 50% so far this year, hitting three year highs. As a result, of this re-rating we are moving our price target and recommendation to "Under Review".

David Fahy, CFA | Investment Analyst

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## Regulatory Information

**Issuer Descriptions: (Source: Bloomberg)**

**Flutter Entertainment:** Flutter is a betting and gaming company. The Company provides online betting and gaming products.

**C&C Group:** C&C Group manufactures and distributes alcoholic beverages.

### Historical Recommendation:

**Flutter Entertainment:** Currently outlook is Market Perform

**C&C Group:** We moved our recommendation to "Under Review" on 4 July 2019

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