Daily Note
Views, news and topics from today's markets

CANTOR Fitzgerald

Friday, 12th July 2019

Morning Round Up

Trump backs off targeting PBM model
President Trump confirmed yesterday that the White House was dropping the proposed "rebate rule" to tackle prescription drug pricing. The rule would have ended discounts on government healthcare plans to pharmacy benefit mangers (PBM) forcing manufacturers to pass the saving directly to the consumer. The manged care and PBM sector, including core portfolio name UnitedHealth, saw large moves on the news. UnitedHealth finished the day up 5.5%. While yesterday's policy change is a welcomed positive for the sector, regulatory uncertainty remains a significant headwind. The possibility of a government run healthcare system, like the models proposed by Democratic Presidential candidates Bernie Sanders and Elizabeth Warren, would have a significant impact on the managed healthcare sector. We expect the sector to underperform if the likelihood of a potential Sanders or Warren candidacy increases. Should a non Medicare For All (MFA) candidate emerge as front runner, we expect the sector to strengthen significantly. Regardless, given the opposition to the MFA proposal, from the republican side (who control the senate) and broadly the democrat side, the likelihood of an MFA legislation passing remains highly unlikely. UnitedHealth Group report Q2 results next week, with expectations of double digit profit growth.

CPL trading update sees profits ahead of expectations
CPL Resources, the Irish and UK focused recruitment firm, released a trading update this morning. Post a solid interim result in January with management then reporting double-digit growth in profits and earnings per share, management now expect full year 2019 profits (June 2019 year-end) to be ahead of market expectations. Whilst noting that current market conditions remain favourable, they acknowledge the risk. CPL Resources currently trades on 9x earnings, which is very attractive relative to the groups high return on equity and growth profile over the last couple of years. Recent acquisitions also position them to grow again in 2020. A strong job market and increasingly more employment churn is a favourable environment for CPL provided that we don't slip into a recession. We continue to rate CPL as an outperform and think that the shares trade below fair value because of liquidity concerns.

Cairn Homes CFO steps down
Cairn Homes CFO Tim Kenny is to leave the firm in January 2020 to take up a new role at a private Irish company. A process to recruit a new Group Finance Director will commence immediately. Tim was previously finance director at the Musgrave Group before joining Cairn Homes in 2017, replacing Eamonn O'Kennedy. In his short period with Cairn Homes, Tim has helped grow the company profits significantly and has put plans in place to return capital to shareholders. Cairn Homes shares trade at €1.19 per share, considerably below our Dec 2019 fair value of €1.60, weighed down by concerns of what impact Brexit may have on the residential market in Ireland.

Daimler issue profit warning
Daimler released preliminary Q2 results which were much worse than expected as a revised risk assessment led to a provision for a recall in Europe and ROW in connection with Takata airbags (€1bn provision), an increased €1.6bn expense related to court proceedings re Diesel engines and the Merc Vans division took a €500m restructuring charge. In addition, a slower ramp up of new products and lower automotive demand growth has led to management guiding for 2019 EBIT to be significantly below 2018 levels. While sell side consensus has yet to price that in to their 2019 estimates, given the fall in shares over the last seven months – the buy side have been less optimistic. Daimler shares are down 53% from its high recorded in 2015 and 26% since December 2018. The stock is down 2% this morning. Daimler shares trade on 6.5x trailing earnings.

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

The S&P finished yesterday on a record high, but marginally below 3,000 at 2,999.9. Markets are holding gains as the focus switches from the Fed to the earnings. Asia was mixed overnight after an unexpected contraction in Singapore's GDP and President Trump complained about China's lack of action on US agricultural products. European equities have opened flat this morning. German yields have made a significant move higher from recent record lows of -40bps to -22bps, which has seen financials trade higher. The market is firmly focused on Q2 earnings, starting Monday. On the data front, we have European Industrial Production and US PPI later today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	27088	227.88	0.85%	16.12%
S&P	3000	6.84	0.23%	19.67%
Nasdaq	8196	-6.49	-0.08%	23.52%
Nikkei	21686	42.37	0.20%	8.35%
Hang Seng	28488	56.68	0.20%	10.23%
Brent Oil	67.03	0.51	0.77%	24.59%
WTI Oil	60.63	0.43	0.71%	33.52%
Gold	1411	7.15	0.51%	10.02%
€/$	1.1265	0.0011	0.10%	-1.76%
€/£	0.8983	-0.0004	0.05%	0.07%
£/$	1.254	0.0019	0.15%	-1.68%

	Yield	Change
German 10 Year	-0.218	0.007
UK 10 Year	0.834	-0.002
US 10 Year	2.125	-0.012
Irish 10 Year	0.218	0.012
Spain 10 Year	0.49	0.016
Italy 10 Year	1.683	-0.017

Source: Bloomberg, CF Research July 2019

DCC Group - Maintains guidance in update prior to AGM

Closing price: £69.62

News

Prior to its AGM later today, DCC released a brief Q1 update to the 30th of June. While there was little new news in the release, management confirmed guidance for the remainder of the year. The update confirmed that the business had traded in line with expectations, delivering good growth in operating profit driven by acquisitions completed last year. Management reiterated its belief that this year would be another year of “profit growth and development”, noting that profits are significantly weighted to H2.

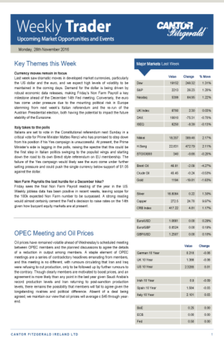
On the development side it has completed the acquisitions of Comm-Tec in Germany and Amacon in the Netherlands. Both are expected to significantly enhance DCC’s technology offering in Europe. Within DCC Retail & Oil, it has also finalised the creation of a new branded aviation fuels marketing and distribution business in Denmark with Shell Aviation. Within DCC Vital, Management noted that expects the disposal of its UK generic pharma activities and related manufacturing in Ireland to sharpen the focus of the segment.

Comment

There was very little in this release, with shares reacting accordingly, opening flat this morning. The DCC has had a solid start to the year rising by 18%. Despite the appreciation, there remains 17% upside to the consensus price targets. We expect DCC to be active on the M&A side again this year as it takes advantage of fragmented markets. Given the equity raise last year it has roughly £1bn worth of capital it can deploy. However, as we have been advising clients, Brexit remains a significant uncertainty that will continue to weigh on Irish/UK exposed stock (DCC’s exposure to the UK/Ireland is currently 50%). Maintain our Outperform rating.

David Fahy, CFA | Investment Analyst

Cantor Publications & Resources



Weekly Trader

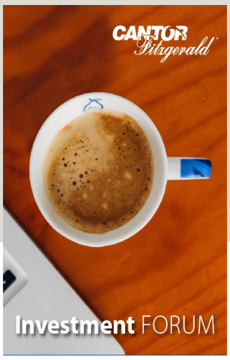
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, thereby allowing clients to dynamically position portfolios to take advantage of the most up to date market developments.

[Click Here]

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.

[Click Here]



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)

DCC: DCC is a sales, marketing, distribution and business support services company.

Historical Recommendation:

DCC: We have an Outperform on DCC as of 17/8/15 changing to Outperform from Not Rated

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

This material is approved for distribution in Ireland by Cantor Fitzgerald Ireland Ltd. It is intended for Irish retails clients only and is not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. Cantor Fitzgerald Ireland Ltd ("CFIL") is regulated by the Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Where CFIL wishes to make this and other Cantor Fitzgerald research available to Retail clients, such information is provided without liability and in accordance with our terms and conditions that are available on the CFIL website.

No report is intended to and does not constitute a personal recommendations or investment advice nor does it provide the sole basis for any evaluation of the securities that may be the subject matter of the report. Specifically, the information contained in this report should not be taken as an offer or solicitation of investment advice, or to encourage the purchased or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor either from your CFIL investment adviser or another investment adviser.

CFIL takes all responsibility to ensure that reasonable efforts are made to present accurate information but CFIL gives no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. This is entirely at the risk of the recipient of the report. Nor shall CFIL, its subsidiaries, affiliates or parent company or any of their employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk

All estimates, views and opinions included in this research note constitute CANTOR IRELAND's judgment as of the date of the note but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this research note has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment.

Conflicts of Interest & Share Ownership Policy

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other CANTOR IRELAND business units including Fund Management and Stock broking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, CANTOR IRELAND is satisfied that the objectivity of views and recommendations contained in this note has not been compromised. Nonetheless CANTOR IRELAND is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this research note, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research note.

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

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

Twitter : @cantorIreland **Linkedin :** Cantor Fitzgerald Ireland