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

CANTOR Fitzgerald

Thursday, 01st August 2019

Morning Round Up

FOMC meeting more hawkish than expected
The US Federal Reserve lowered its target interest rate by a quarter of a percent to a range of 2%-2.25%, the first such cut since the financial crisis. This cut was widely expected by market participants, but it was comments from the Fed chairman, Jerome Powell that disappointed markets. Powell stated that this cut was "a mid-cycle adjustment to policy" and the Fed would take a more cautious approach to future easing than had been expected. Markets were betting on 3 more rate cuts before the end of 2019, but Powell's statement gave no clear indication of future moves by the Fed, giving them flexibility to respond to economic and financial-market developments. Powell did hint that at least one more cut was likely before the end of 2019 but gave no guarantee. If the economic data worsens, they will likely cut but if it stays the same, they could go either way. With markets generally trading down after the comments, the S&P 500 Index was hit the hardest falling by as much as 1.8% but pairing losses to close down 1.1%. The treasury curve flattened with short-end yields rising, driving the gap between the 2- and 10-year yields to its lowest level since March. The Dollar gained against other major currencies and Asian equities were broadly lower with all three major indexes, Hong Kong's Hang Seng, China's Shanghai Composite and Japans Nikkei 225 all trading down more than 1%. US President Donald Trump also wasn't pleased with the statement tweeting, "As usual, Powell let us Down", he had pressed the Fed to announce a larger rate cut. The Fed also announced that it would cut the interest rate it pays banks to keep their excess reserves at the central bank, from 2.35% to 2.1%, a move designed to promote lending and push funds back into the economy. With 6 weeks until the next Fed meeting market participants will be watching economic data coming out of the US and globally for any indication of the Fed's future monetary decisions.

Hugo Boss Q2 results in line, guidance is for acceleration in second half
Hugo Boss, recommended in weekly trader back in Q1, reported Q2 financial results this morning reporting that Q2 revenue of €675m increased by 2% YoY and EBIT of €76m increased by 2% YoY. This was a significant improvement on their Q1 result when the group reported a decline in EBIT. Strong momentum in Asia Pacific, online and Britain offset modest declines in Germany and the US. China and online sales grew double digit. Management guided that they expect a significant acceleration in sales and operating profit in second half which will result in FY sales growth of mid-single digit and operating profit growth of high single digit. Provided they can deliver on guidance, we see decent total return (c.15%) over the next nine months supported by its 5% dividend yield.

ING Bank results solid. Interim dividend of 24c confirmed
ING bank reported Q2 2019 financial results this morning reporting €1.43bn net profit which is at similar levels to last year. The bank added 300,000 customers in Q2 to 12.9m customers and boosted net lending by €7.4bn. Customer deposits grew by €11.7bn. The groups CET 1 ratio remains comfortable at 14.5% permitting an interim cash dividend of 24c per share. Underlying pre tax profits of €2bn was the highest recorded in three quarters supported by net interest income growth and steady fee income. Group cost income ratio was steady at 52.5%. ING bank generated a return on equity of 10.8% yet trades on 0.75x book value and offers a 7% yield. Soc Gen, Standard Chartered and Barclays reported better than expected results this morning also with their shares trading up.

Source: Bloomberg, CF Research August 2019

Key Upcoming Events

Market View

US markets sold off yesterday in response to a more hawkish Federal Reserve. The message from Powell did not indicate the beginning of a rate cutting cycle as was expected. Asian markets continued the trend weaker as trade talks ended in China with no real progress achieved. European markets have opened weaker as risk appetite trends weaker. Q2 earnings season enters the end of the reporting cycle in the US with some big names yet to report including Verizon and the Oil majors out today and tomorrow. On the data front Final Manufacturing PMI readings from the US and Europe will be closely watched.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26864	-333.75	-1.23%	15.16%
S&P	2980	-32.80	-1.09%	18.89%
Nasdaq	8175	-98.20	-1.19%	23.21%
Nikkei	21541	19.46	0.09%	7.63%
Hang Seng	27566	-212.05	-0.76%	6.65%
Brent Oil	64	-0.59	-0.91%	19.81%
WTI Oil	58	-0.65	-1.11%	27.57%
Gold	1407	-7.21	-0.51%	9.67%
€/$	1.10	0.00	-0.25%	-3.65%
€/£	0.91	0.00	-0.09%	-1.42%
£/$	1.21	0.00	-0.36%	-5.01%

	Yield	Change
German 10 Year	-0.42	0.02
UK 10 Year	0.62	0.01
US 10 Year	2.05	0.04
Irish 10 Year	0.12	0.03
Spain 10 Year	0.32	0.04
Italy 10 Year	1.56	0.02

Source: Bloomberg, CF Research August 2019

FBD Holdings - Underwriting performance drives big jump in profitability Closing price €9.54

News

FBD released an exceptionally strong set of numbers for H118, on the back of strong underwriting discipline, benign weather conditions and prior year reserve release. Gross written Premium (GWP) for H1 was €189.7mln (H1 18 €191.9mln), down 1.1% on last year. Management have targeted top line growth in line with GDP, however, given the competitive environment GWP came in marginally behind. Underwriting performance was exceptionally strong, coming in with a combined operating ratio (COR) of 82.5% on the back of no significant weather events. The reported COR included €8.8mln in prior year reserves, leaving a current year COR of €87.8% The business generated an underwriting profit of €29.2mln, up €10mln on H118. Investment income was also well ahead of last year at €8.6mln versus €1.2mln in same period last year. Profit before tax doubled to €38.6mln in a an exceptionally strong financial performance in H1.

Investment returns were strong after a very challenging Q418. Asset allocation saw a minor shift of c. 2% out of fixed income into equities and other risk assets. The portfolio delivered an unrealised gain of €14mln. The balance sheet remains strong with a Solvency Capital Ratio (SCR) of 165%. Increased profitability will likely see FBD increase its full year dividend, in the event that last years pay-out ratio is maintained at 40%. After an exceptionally strong H1, management are guiding for a mid to high teens return on equity (ROE) based on a more "normalised" second half of H1.

Comment

Another period of strong performance from FBD on the back of underwriting discipline. We continue to see management deliver with current year COR at 87.8% compared to 89.4%. Despite a number of periods of strong underwriting performance, management continue to target a more "normal" level in the low 90s. Improved investment returns will also boost profitability in the current year. All of which points to a strong dividend assuming H2 delivers consistent results. The lack of top line growth is a concern with regard growing earnings. In the absence of it, profitability requires further improvement in underwriting profitability which will be difficult given how strong this metric is already. We continue to see upside in FBD, with an increased likelihood of strong dividend growth on FY18. We maintain our outperform and will be monitoring market reaction over the coming months.

Pierce Byrne, CFA | Investment Analyst

Royal Dutch Shell - Weaker results driven by macro headwinds Closing price £26.02

News

Shell's Q2/19 results released this morning came in below expectations leading the shares to drop by 4% on open. These underwhelming results, which saw misses across the underlying segments, were driven by the challenging macroeconomic environment along with some one off factors including taxes and provisions. Revenue fell by 6.4% to $90.54bn, below expectations of $91.51bn. Net income fell by 26% to $3.46bn, significantly below expectations of $4.93bn . Adjusted EPS was again weaker than expected, falling by 23.2% to $0.43 (vs $0.59). The poorer than expected figures reflected lower realised oil, gas and LNG prices, weaker chemicals and refining margins as well as higher provisions, all of which offset improved production. Cash flow from operating activities was strong at $11bn, up 11% yoy. This translated into free cash flow (pre OWC and financial charges) of $4.13bn, more than sufficient for the current buyback programme. Capex was better than expected at $5.3bn, falling 8%. Looking ahead, integrated gas production is expected to be a similar level as Q3/18. LNG liquefaction volumes are expected to increase slightly. Upstream production is expected to be higher by some 50 – 100 thousand boe/d. Oil Products sales volumes are expected to decrease by some 40 – 70 thousand boe/d .

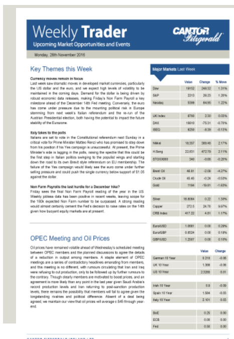
As mentioned above the core underlying segments came in below expectations due to macroeconomic headwinds. 2Q adjusted upstream profit came in at $1.34bn (vs $1.46bn expected). Adjusted integrated gas profit was $1.73bn (vs $2.31bn expected). Adjusted downstream profit was $1.34bn (vs $1.66bn expected).

Comment

This was a poor set of results with the share price being punished after its recent strong run. The gas division posted the most significant weakness as the fall in gas prices weighed heavily on profitability. Importantly cash flow generation remained strong and capex spend was disciplined in the quarter. This marks another weak set of results for the oil majors in Europe with Eni, Total, Equinor all coming in below expectations. The higher production growth companies (Total & BP) have however, offset some of the effect of the macro headwinds. We continue to like Royal Dutch Shell (and Total) at these levels given the current oil price (above $60 for brent), gas exposure (structural winner over the medium term/long term), cash flow generation and dividend yield (important given market backdrop). It is also important to keep in mind the difficulty that street analyst have in forecasting energy majors metrics, leading to significant beats and misses quarter on quarter. Maintain Outperform.

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.

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)
Royal Dutch Shell: Royal Dutch Shell explores, produces, and refines petroleum
FBD Holdings: FBD Holdings is primarily involved in insurance underwriting

Historical Recommendation:
Royal Dutch Shell: Royal Dutch Shell is a member of our core portfolio and we have an Outperform rating on the stock since 20/05/2013
FBD Holdings: We moved FBD from Market Perform to Outperform on the 6th December 2016.

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