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

Thursday, 8th August 2019

Morning Round Up

Ryanair's UK pilots confirm strike action
Ryanair's pilots in the UK have voted in favour of strike action. Members of the British Airline Pilots Association (BALPA) have confirmed that they plan to strike for 5 days. The initial walkout will be for two days on August the 22nd and 23rd followed by a further three days from September 2nd to 4th. According to BALPA the claim includes issues over pensions, loss of license insurance, maternity benefits, allowances and pay structure. The decision follows the industrial action ballot that saw 80% vote in favour of strike action on a 72% turnout. Ryanair management have noted that less than 50% of Ryanair's UK pilots are member of BALPA. The Irish pilots union, IAPLA, are set to announce their decision to strike tomorrow. Combined, the two countries (Ireland and the UK), represent about 25% of Ryanair's exposure in Europe. These potential strikes follow on the Portuguese Cabin crews (SNPVAC) decision to strike on the 21st of August for 5 days. Again we advise there is likely to be further share price weakness for Ryanair given the numerous headwinds over the coming months including Brexit, the Boeing MAX issue, fare pressures, industrial action and environmental taxes.

Oil rebounds from lows
Oil has rebounded by 2.7% this morning, clawing back some of its 4.7% drop yesterday as trade uncertainty weighed on the demand outlook. This morning's move came after it emerged that Saudi Arabi had contacted other producers to discuss options to stem the recent rout. Saudi Arabia, who has attempted to buoy prices over the past two years by pushing OPEC's production cuts, is reportedly considering a serious of options to stem declines driven by trade uncertainty. Details of these potential measures remain unclear.

Lyft - Beats and raises guidance
Lyft, the ride hailing company, released better than expected Q2 results with revenue of $867m (+72% YoY) and active users increasing by 41% YoY to 21.8m. Lyft reported average revenue per active user of $39.77 (+22% YoY). Lyft stock reacted positively to management raising guidance for revenue and lowering their expected loss for the year, guiding that price increases will stem losses. Uber is due to report results today.

US 10 Year Yield 5 Day Chart

Source: Bloomberg, CF Research August 2019

Key Upcoming Events

01/09/2019 US China Tariff increase

Market View

US markets finished flat yesterday pairing earlier losses as trade tension eased somewhat. Momentum continued into Asian trading as the PBOC fixed the yuan stronger than expected. European equities opened higher this morning as markets expect further monetary stimulus. Yields continue to trend lower, with the US 10 year trading as low as 1.60% yesterday before finishing the day above 1.70%. German yields traded down to record lows at -60bps. Trade continues to dominate sentiment with markets taking comfort from the planned visit by a Chinese delegate to Washington in September. Oil rose as Saudi Arabia move to stem the recent rout in Oil prices.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26007	-22.45	-0.09%	11.49%
S&P	2884	2.21	0.08%	15.04%
Nasdaq	7863	29.56	0.38%	18.50%
Nikkei	20593	76.79	0.37%	2.89%
Hang Seng	26121	123.74	0.48%	1.06%
Brent Oil	57.57	1.34	2.38%	7.01%
WTI Oil	52.45	1.36	2.66%	15.50%
Gold	1497	-3.68	-0.25%	16.76%
€/$	1.1215	0.00	0.14%	-2.20%
€/£	0.9217	0.00	-0.08%	2.53%
£/$	1.2168	0.00	0.21%	-4.59%

	Yield	Change
German 10 Year	-0.564	0.02
UK 10 Year	0.518	0.03
US 10 Year	1.7258	-0.01
Irish 10 Year	-0.001	0.02
Spain 10 Year	0.185	0.01
Italy 10 Year	1.48	0.0620

Source: Bloomberg, CF Research August 2019

Aviva - Encouraging set of results for new management team

Closing Price: £3.82

News

Aviva reported H1 earnings this morning, which were broadly positive. The group posted a 1% increase in operating profits to £1.45bn. Operating costs were up 2% on the back of elevated H218 baseline, with management committing to full year operating cost lower than FY18. The balance sheet remains strong with a Solvency II cover of 194%, well above managements target range between 160%-180%. Group debt remained unchanged in the period, while central liquidity increased to £2.3bn on strong cash remittance. Management have committed to reducing costs by £300mln by 2022 to improve the efficiency of the business. The new management team are also reviewing the business's Asia exposure, which is relatively small.

Both General Insurance (GI) and Life performed well. The GI segment delivered a combined operating ratio (COR) of 95.7, on prior year reserve developments and more benign weather than average. Canada saw significant improvement on previous years. GI contributed £391mln to operating profit, up 29% on H118. The life business saw a marginal fall in the present value of new business premiums (PVNBP) to £21.29bn, with a new business margin of 2.5%, which was 30bps weaker than H118. The segment contributed £1.28bn to operating profit, down 8% on the previous period. Aviva Investors saw a 18% decline in operating profit to £61mln due to lower revenues despite an increase in AuM to £379bn.

Comment

This morning results should be well received and prove an uneventful first set of earnings for new CEO Maurice Tulloch. General insurance saw strong improvements on the back of an improvement in Canada, while the business's UK franchise struggled in the current economic environment. Aviva continues to generate strong cash and capital but share price performance likely to remain at current valuations due to Brexit uncertainties and the lower interest rate environment. Considering the improving quality of the balance sheet, and prospect of increased shareholder distributions through both share buybacks and its dividend policy (forward yield of 8%) the long-term investment case for Aviva remains positive. However, clients do need to consider the volatility in the shorter term due to Brexit and sterling (for euro-based investors).

Pierce Byrne, CFA | Investment Analyst

Kerry Group - Another set of solid results

Closing Price: €103.70

News

Kerry Group released a solid set of H1/19 results this morning. Headline metrics showed consistent growth, coming in ahead of expectations, and the midpoint of its guidance for the full year was maintained (with a narrower range). Revenue grew by 10.7% to €3.569bn, ahead of expectations of €3.544bn. This growth was driven by 3.3% volume growth, neutral pricing, 4.7% from M&A and 2.7% positive FX movements. EBITA grew by 12.6% to €382.9m. This was aided by improved profitability as the EBITA margin expanded by 20bps. Adjusted EPS grew by 13.8% to 164c, ahead of expectations of 143c. The interim dividend grew by 11.9% to 23.5c. Free cash flow fell slightly to €195m (vs €201m last year). Net debt increased to €1,918m, driven by acquisitions. Management updated its guidance for the year. It now expects FY19 EPS to grow by between 7% - 9% (previously 6% - 10%), leaving the midpoint unchanged.

The Taste and Nutrition business (c.80% of the group revenue) performed strongly. Revenue grew by 13% to €2,915m, driven by 3.8% volume growth. Despite flat pricing, the trading margin improved by 20bps to 13.3%. Performance was robust across geographies, +2.7% volume growth in the Americas, +2.2% volume growth in Europe and +9.6% volume growth in APMEA. Two of the medium term growth drivers performed well, developing markets (+9.1%) and Foodservice (+5.3%). The Consumer Foods business (c.20% of the group revenue) performed as expected. Revenue grew by 0.6% to €689m, driven by 0.6% volume growth. Trading margins remained flat.

Comment

Another positive set of results from Kerry, again proving its ability to consistently expand volumes and profitability. Taste & Nutrition continues to show robust growth driven by its core pillars (as outlined at its capital markets day). Growth was strong across regions and the recent acquisitions of Southeastern Mills, Fleischmann's and Ariake will add further to revenue. The Consumer Foods business performed reasonably well despite the challenges within its marketplace.

We continue to see Kerry Group as a leader within the Food sector and a stock which should be held over the long term. We recently downgraded our recommendation to Market Perform as its valuation (27x P/E) had become stretched. However, given the macroeconomic backdrop, Kerry's high quality nature will likely see it to continue to trade at a significant premium for the foreseeable.

David Fahy, CFA | Investment Analyst

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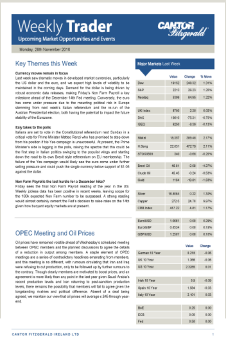

Weekly Trader

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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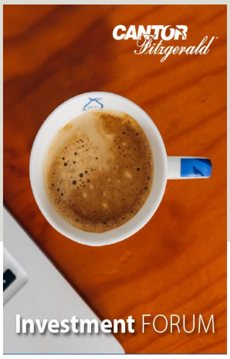

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)
Aviva plc: Aviva is an international insurance company that provides all classes of general and life assurance.
Kerry Group: Kerry develops, manufactures, and delivers innovative taste solutions and nutritional and functional ingredients

Historical Recommendation:
Aviva plc: Aviva is currently on market perform.
Kerry Group: We have a "Market Perform" rating on Kerry as of 5/04/2019

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