

Friday, 9th August 2019

Morning Round Up

Ryanair looks set to see further strikes

Ryanair's share price continues to remain under pressure as the likelihood of strike action across numerous countries continues to build. The Irish pilot union, IAPLA, will have the result of their ballot on strike action today. The dispute revolves around the lack of progress made in pay discussions. Yesterday, BALPA (the British Airline Pilots Association) voted in favour of five days of strikes. Portuguese cabin crew intend to strike for five days from the 21st of August. Laudamotion, one of its subsidiary airlines in Austria/Germany, are demanding changes to a collective wage agreement. Headwinds are continue to build for the airline as Brexit, the Boeing MAX issue, fare pressures and environmental taxes weigh on its outlook. Again, we advise that there likely to be further downside over the coming months.

Bayer looking to settle 18,000 cases

This morning it was reported that Bayer, the German healthcare and agricultural company, is proposing an \$8bn payout to settle more than 18,000 US lawsuits involving its cancer causing pesticide. Such a settlement will likely be months away, however, it would alleviate some of the pressures its currently receiving. Its share rose by 11% this morning on the back of the news.

Italian political uncertain returns

The mismatched political ideologies of the far-right League and the left-wing Five Star union looks to have come to an end. After a little over a year in coalition, the League's Matteo Salvini looks to call time on the government over Five Star opposition to a high-speed train link between Turin and Lyon. Italian prime minister Giuseppe Conte is to start proceedings to recall the parliament for a confidence vote, which will likely see Italians return to the polling stations. Mr Salvini is looking to capitalise on his party's strong performance in the European election, where his party topped the polls with 34.33% of the vote. Italian 10 Year BTPs rose 21bps on the news, while the spread over German bunds widen to 2.339%. Assuming the League was to increase its representation in the Italian parliament, along with Mr Salvini as prime minister we would expect increased conflict with the European Union. Additional political uncertainty would likely see core European yields fall further, with investors moving to safer assets providing additional selling pressures for European equities. We retain our cautious outlook on Europe as the region faces a multitude of political risks.

I-RES 1 Year Price Chart



Source: Bloomberg, CF Research August 2019

Key Upcoming Events

01/09/2019 US China Tariff increase

Market View

Equity markets are weaker this morning, erasing some of yesterdays gains. Trade headlines continues to drive volatility. This trend is likely to continue for the foreseeable future with Huawei and claims of Chinese currency manipulation the latest issues. This has weighed heavily on oil prices. WTI and Brent are now trading at just \$52.50 and \$57.40 respectively. The growing probability of a no deal Brexit has led to pound to weaken further this morning (EUR/GBP now at 0.923). On the data front, Japanese GDP came in stronger than expected, growing by 0.4% QoQ. UK GDP growth and UK Industrial Production will be closely watched later today.

Market Moves

| | Value | Change | % Change | % Change YTD |
|-----------|--------|---------|----------|--------------|
| Dow Jones | 26378 | 371.12 | 1.43% | 13.08% |
| S&P | 2938 | 54.11 | 1.88% | 17.20% |
| Nasdaq | 8039 | 176.33 | 2.24% | 21.16% |
| Nikkei | 20685 | 91.47 | 0.44% | 3.35% |
| Hang Seng | 25939 | -181.47 | -0.69% | 0.36% |
| Brent Oil | 57.63 | 0.25 | 0.44% | 7.12% |
| WTI Oil | 52.81 | 0.27 | 0.51% | 16.30% |
| Gold | 1503 | 1.67 | 0.11% | 17.16% |
| €/\$ | 1.1188 | 0.00 | 0.07% | -2.43% |
| €/£ | 0.9245 | 0.00 | 0.33% | 2.84% |
| £/\$ | 1.2102 | 0.00 | -0.26% | -5.11% |

| | Yield | Change |
|----------------|--------|--------|
| German 10 Year | -0.587 | -0.03 |
| UK 10 Year | 0.485 | -0.04 |
| US 10 Year | 1.7069 | -0.01 |
| Irish 10 Year | -0.01 | -0.01 |
| Spain 10 Year | 0.221 | 0.00 |
| Italy 10 Year | 1.77 | 0.2380 |

Source: Bloomberg, CF Research August 2019

I-RES - Raising our fair value to €1.82 and reiterate Buy

Closing Price: €1.68

News

Irish Residential Properties REIT issued interim results this morning up to 30th June 2019 reporting that net rental income grew by 17.6% to €22.7m, EPRA NAV per share grew by 3.5% to €1.469 and interim dividend was raised from 2.6c per share to 2.7c per share (ex on 16th August). Gearing finished the period at 38.6%. I-RES has now spent €1.03bn acquiring 3,884 units including the recent purchase of 815 units known as the Marathon portfolio for €285m.

Revenue from rental investment properties increased by 15.3% to €27.8m with the average apartment rented for €1,598 per unit (up from €1,539 per unit). I-RES valued their residential units at 6% gross yield which led to a €22.5m revaluation gain (€57m last year).

Over the period, I-RES showed its ability to source units through a number of new ventures including JV's with developers at Hansfield site in North County Dublin, non-core purchase of 69 units from Dalata Hotel Group at Tara Towers and a forward purchase agreement with Glenveagh to acquire 173 units across two of its developments. Post the period end, IRES announced the acquisition of 815 Marathon units.

I-RES issued 43.4m new shares during the period to fund the partial acquisition of Marathon portfolio and since issued a further 43.1m shares to help complete the Marathon portfolio. This equity raise was equivalent to additional 20% of shares but was used to fund the acquisition of an additional c.30% of residential units.

I-RES can add a further 428 residential units at Rockbrook in Sandymount and a final decision on an amended planning application is due over the coming weeks.

In addition to currently owning 3,884 units with over 628 units in the development pipeline, I-RES also has 30,765 sqm of commercial.

Comment

This was a solid result which follows on from a number of solid acquisitions over the last six months which will ensure rental and dividend growth in the medium term. The announcement of a successful planning application at Rockbrook should be a catalyst for continued performance over the next month or two.

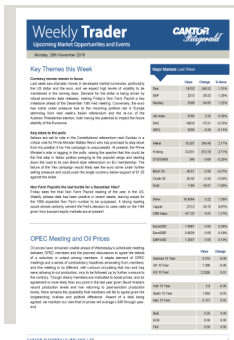
I-RES shares have corrected by 6% from recent highs and now trade 5% below our previous target price having recommended it as a "Buy" in Junes weekly trader.

If we allocated a value of €1,300 per sqm to I-RES commercial property and €80,000 per site to its development sites, then we estimate a non-core value of €5.1m and €50m respectively. Extracting this from the current Enterprise value of €1.17bn would leave €1.12bn of value attributed to the 3,884 units currently owned by I-RES, implying an EV per unit of €286,174.

We are raising our twelve month fair value today to €1.82, based on an EV per unit of €310,000 and a successful planning outcome at Rockbrook. We reiterate our buy recommendation expecting 13% total return over the next twelve months.

Darren McKinley, CFA | Senior Equity Analyst

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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.

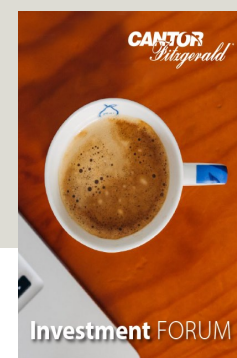
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

I-RES Properties: Irish Residential Landlord

Historical Recommendation:

I-RES Properties: Recommended as a Buy on 14th June 2019

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