Daily Note

Views, news and topics from today's markets

CANTOR Fitzgerald

Wednesday, 14th August 2019

Morning Round Up

Henderson Park offer of €1.9135 is supported by Green REIT board

Henderson Park has agreed to buy Green REIT for €1.9135 per share subject to regulatory approval. The deal is expected to complete by the end of November and Green REIT is trading at €1.90 this morning. The sale price implies a multiple of 1.02x net asset value and a forward gross yield to Enterprise value (EV) of 5.3%. Hibernia REIT trades with a forward gross yield to EV of 4.9% despite trading at a discount to net asset value. This is a great outcome for Green REIT shareholders with the bid at a 6% premium to our most recent fair value and 35% higher than the price of Green REIT on the day of our December 2018 Buy flash note. For clients who want to re-invest the proceeds of Green REIT into Irish income plays, we continue to see upside to our fair value in FBD (5.9% dividend yield) and Yew Grove (6% dividend yield). For other REIT exposure, we view the 4% dividend yield on Kennedy Wilson as attractive and it trades at a 22% discount to NAV. At €1.90 share price today, we would be inclined to sell and buy other names in the current weakness.

German economy contracts in Q2/19

The German economy contracted by –0.1% last quarter, adding to the case for further monetary or fiscal stimulus for the European economy. The trade war between the US and China is weighing heavily on the export driven market. There have been numerous profit warnings over the past few weeks from some of Germanys major Auto and Chemical companies, including Henkel, Daimler, Continental and BASF. The figures revealed that output was dampened by trade as exports fell. Private consumption, Investment and Government spending where higher than the previous quarter. German bond yields fell further after the data was released with the 10yr bond now trading at -62bps. The broader European GDP figure will be released at 10am this morning. Expectations are for 0.2% QoQ growth.

China output weakens but shares rise on tariff delay

China's released an underwhelming collection of data points overnight, all of which came in below expectations, as the country continues to experience slowing economic growth. Industrial production grew by 4.8% (previously 6.3%), below expectations of 5.8%. Retail sales grew by 7.6% (previously 9.8%), below expectations of 8.6%. Fixed Asset Investment grew by 5.7% (previously 5.8%), below expectations of 5.8%. The weaker data comes just two days after it released a series of weaker than expected credit figures. Despite this, shares across the region rose last night after Donald Trump decided to delay a portion of the 10% tariffs ($300bn of goods) until December. A convenient date for Christmas spending. The products include mobile phones, laptops, video game consoles, toys, computer monitors, and certain footwear and clothing.

UK July CPI reading higher than expected

UK inflation unexpectedly accelerated last month, boosted by computer games and hotel accommodation. Inflation picked up to an annual pace of 2.1% in July, ahead of the BOE's 2% target rate. With the UK economy contracting in Q2 and inflation now running above the target rate, monetary policy may not be as accommodative going forward as one might expect. The BOE official interest rate is 0.75% currently with the next policy meeting set for the 19th September. At the last policy meeting, the BOE Monetary Policy committee voted unanimously to keep rates at 0.75% and for asset purchases to stay as is. They also expected CPI to increase above target over the short term.

Source: Bloomberg, CF Research August 2019

Key Upcoming Events

21/08/2019 FOMC Minutes
01/09/2019 US China Tariff increase
06/09/2019 US Nonfarm payrolls

Market View

US equities rallied over the opening hour yesterday and held onto gains as Trump announced plans to delay the additional 10% tariffs until after the holiday shopping season, acknowledging the impact on consumers and the capacity for further trade talks. Asian equities posted modest gains but European equities are softer this morning as data was released confirming that the German economy contracted in the second quarter. Chinese data was weaker overnight and concerns of unrest in HK/China grow as China sends troops to HK border signalling the Chinese government is ready to take action. Crude rallied 4% yesterday on tariff delay.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26280	372.54	1.44%	12.66%
S&P	2926	43.23	1.50%	16.73%
Nasdaq	8016	152.95	1.95%	20.81%
Nikkei	20655	199.69	0.98%	3.20%
Hang Seng	25302	20.98	0.08%	-2.10%
Brent Oil	60.71	-0.59	-0.96%	12.84%
WTI Oil	56.39	-0.71	-1.24%	24.18%
Gold	1501	-0.65	-0.04%	17.03%
€/$	1.1178	0.00	0.06%	-2.52%
€/£	0.9260	0.00	-0.04%	3.01%
£/$	1.2072	0.00	0.10%	-5.35%

	Yield	Change
German 10 Year	-0.624	-0.02
UK 10 Year	0.488	-0.01
US 10 Year	1.6505	-0.05
Irish 10 Year	-0.049	-0.02
Spain 10 Year	0.195	-0.02
Italy 10 Year	1.62	0.0060

Source: Bloomberg, CF Research August 2019

IPL Plastics - Show strong improvement in margin

Closing Price: C$9.00

News

IPL Plastics posted a strong set of results for H1 19. Despite delivering a contraction in revenues, profitability improved across the divisions after a challenging FY18. Q2 revenues were down 5.4% to $168.6mln (Q218 $178mln) below expectations. Management called out negative currency translation issues as well as a reduction in volumes. However, profitability improved significantly after a weak FY18. Gross profit was up 22.1% to $37.8mln with strong margin expansion to 22.4% from 17.4%. Adjusted EBITDA was also higher at $28.5mln, up 25.1% on a year on year basis. Adjusted EBITDA margin was 16.9% up from 12.8%, margin improvement came on the back of lower resin pricing and operational improvements. Net debt after the adoption of IFRS 16 (+$21.4mln) and the Loomans acquisition stood at £342.9mln. Management changed guidance for leverage advising that net debt/adjusted EBITDA is expected to be 3x at year end compared to previous guidance of 2.7x.

Looking at the underlying divisions, Consumer Packaging Solutions (CPS) had a particularly strong quarter. The unit announced a new contract, the largest in the Division’s history. The contract is with a leading multinational retail corporation in the U.S. for in-mold labelling dairy containers. It’s expected to drive organic growth which will generate revenue from 2020 onwards. The contract requires investment of c. $9mln over FY19 and FY20. Outside of this the unit saw a ”temporary” reduction in demand from its largest European customer due to inventory management, which is expected to return to normal levels in H2. Improved pricing, volume growth in North America and a contribution from the Loomans acquisition all contributed to strong performance. The units adjusted EBITDA margin increased by 3% to 20.6%. Large Format Packaging and Environmental Solutions (LF&E) saw weaker revenues due to a strong comparison from Q218. Margins improved by 6.6% to 16.5%. Finally, Returnable Packaging Solution (RPS), which has suffered several operational issues since the IPO, saw revenues decline. Its Agri Bin product continues to see the impacts of seasonality and weaker demand due to bad weather. Its Automotive product continues to be impacted by operational issues. However, operational improvements and lower resin pricing feed through, which saw adjusted EBITDA margin up 8.4% to 24.4%.

Management gave a positive outlook statement. Expectations that CPS revenues from its largest European customer return to normal levels, a pickup in orders of its agricultural bin sales and previously deferred automotive orders feeding through should see the business produce a strong H2. The outlook for resin pricing remains stable and management are confident in its resin procurement strategies. On the downside, dollar strength is expected to remain a headwind for the remainder of FY19.

Comment

This morning sees IPL deliver a strong set of results which should lead the market to question its current valuation. FY18 was a challenging year for the business with significant exceptional costs. Q119 followed posting a strong improvement but fresh issues plaguing the RPS division. Q2 has shown the begin of a significant rebound in profitability with margin expansion really encouraging. If management deliver across guidance on automotive bins and a normalisation of its largest European CPS customer, while maintaining profitability levels, FY19 results should be stronger than expected. Valuations remain well below peers and we expect these to rise on the back of H1 results and increased expectations for H2.

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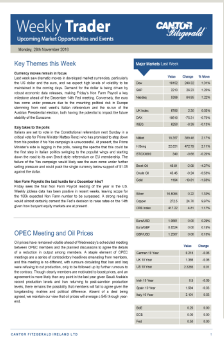

Weekly Trader

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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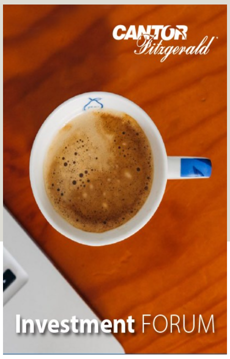

Investment Forum

Through our investment Forum we bring you the latest market news, investment insights and a series of informative articles from our experts.

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)
IPL Plastics: IPL Plastics provides packaging solutions.

Historical Recommendation:
IPL Plastics: Our previous recommendation was

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

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