

Wednesday, 28th August 2019

Morning Round Up

BP asset sale in line with management strategy which was to sell \$10bn of non-core assets

BP Group announced this morning that they have reached an agreement to sell their Alaska production assets for \$5.6bn, a significant milestone on route to delivering on their \$10bn divestment plan. BP has operated in Alaska for decades now and the exit from the geography highlights the challenges for high production traditional oil production relative to shale oil in the more southern US States. BP produced 74,000 net barrels per day in Alaska which looks attractive relative to some of the listed producers. Analysts expect that BP may now go ahead and use this cash flow to buyback scrip dividend shares issued over recent years which are valued up to \$1.7bn. BP trades on 11.4x earnings and offers a 6.8% dividend yield. Post being sold off over the last few months, BP trades just above its weekly 200dma and maybe a good entry point to this income stock post very strong full year results reported in February of this year and ahead of the integration of BHP onshore assets.

IFG Group shares to be cancelled post High Court Approval

IFG group shareholders approved the acquisition of the listed IFG vehicle by a subsidiary of UK private equity firm Epiris GP (SaintMichelCo) on the 9th May for £1.93 per share. Earlier this month, the acquisition got FCA approval and this morning the High Court of Ireland also approved the transaction. As a result, IFG shares will be sold to Epiris GP today and be cancelled tomorrow with funds to be distributed shortly.

Phillip Morris shares fall on Altria merger news

Phillip Morris (PM) shares have declined by 12% over the last two days on news that they are in talks with Altria on a re-merger. The combined market cap of both is \$200bn and would create the worlds largest tobacco company. Altria gets all its revenue from inside the US, while PM gets no revenue from the US and all its revenue from international markets. At the right price, we think that the merger makes sense given that Altria has invested \$13bn into Juul which has been a huge success in the US and is well placed for growth in international markets by utilising PM's distribution platform. In addition, PM would be acquiring Altria before the launch of IQOS on the US later this year. IQOS is PM's successful "heat not burn" product which is growing sales at high double digit. Altria owns 35% of IQOS and also has the distribution of IQOS in the US. In our view, PM wants to gain full control of IQOS before its value increases significantly via the launch in US later this year. PM would be acquiring/merging with Altria at sub 11x earnings and when Altria trades with a 7% dividend yield. The shares may have sold off as a result of PM adding US regulatory risks by acquiring Altria. We would be confident that PM management have weighed up the pros/cons of such a transaction.

Italy's Five Star and the Democratic Party potential coalition stalls

Head of state Sergio Mattarella will meet with Italy's main political leaders today in a final attempt to create a viable majority in parliament and avoid a set of likely market-unfriendly elections. Mattarella, who alone has the power to nominate a new leader, will want a definitive answer by end of day whether Five Star and the Democratic Party have been able to form a coalition; otherwise he will likely dissolve parliament, setting up elections that could come as early as November. Headlines out of Rome will be closely watched along with any move in Italian government bonds to gauge how market participants feel about the progress towards an agreement.

Key Upcoming Events

01/09/2019 US China Tariff increase
06/09/2019 US Nonfarm payrolls

Market View

European shares have opened lower this morning despite the limited fresh news in the market. All sectors in Europe are either flat or negative this morning with the exception of Energy shares, which have been boosted by the bigger than expected US crude inventory drop yesterday. Bonds continue to gain with the German 10 year back below -70bps. The US 2-10 spread is now inverted by -5bps. The August period, where volumes are notably quiet, has witnessed a spike in volatility with the VIX rising from 16 to 25. At present the S&P 500 is sitting c.4% lower than at the beginning of the month.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25778	-120.93	-0.47%	10.50%
S&P	2869	-9.22	-0.32%	14.45%
Nasdaq	7827	-26.79	-0.34%	17.96%

Nikkei	20479	23.34	0.11%	2.32%
Hang Seng	25636	-27.90	-0.11%	-0.81%

Brent Oil	59.93	0.42	0.71%	11.39%
WTI Oil	55.63	0.70	1.27%	22.51%
Gold	1540	-2.67	-0.17%	20.09%

€/\$	1.1089	0.00	-0.01%	-3.30%
€/£	0.9061	0.00	0.40%	0.79%
£/\$	1.2239	-0.01	-0.42%	-4.04%

	Yield	Change
German 10 Year	-0.705	-0.01
UK 10 Year	0.479	-0.02
US 10 Year	1.471	0.00

Irish 10 Year	-0.098	-0.01
Spain 10 Year	0.083	0.00
Italy 10 Year	1.15	0.0120

Total Produce - Solid interim result could be catalyst for better performance

Closing Price: €1.24

News

Total Produce is due to report interim 2019 financial results in the morning. At a trading update reported in May, management confirmed that they target 4-9% adjusted EPS growth above the 13.5c recorded in FY 2018. Adjustments will be made to allow for the Dole transaction. Consensus expects Total Produce to report 14c earnings per share for the full year on revenue of €3.95bn. Group net debt is expected to end the year at €216m – with this figure being monitored closely given the acquisition of Dole.

Interim expectations from sell side consensus are that the group will report €1.9bn revenue and €0.092 earnings per share (EPS), relative to €2.2bn revenue and €0.07 EPS in interim 2018.

At FY 2018 results, Total Produce reported 1.6% organic revenue growth to €4.35bn and 17% growth to €5.04bn when taking Dole into consideration. Organic adjusted EBITDA increased by 5.7% to €110.4m and by 27.6% to €133m when including Dole. Fully diluted earnings per share for 2018 was 10.5c, negatively impacted by the share placement to fund the Dole transaction. Adjusting for Dole, earnings per share would have been 13.5c.

The Dole transaction completed in 2019 will give Total Produce much more international exposure outside of Europe, which was 27% of revenue in 2019.

Comment

Given that the Dole transaction completed in July 2018, interim 2019 results will be the first reporting period with a full impact of Dole. Investors will be hoping for a solid update on Dole and signs of any synergies, non-core sales and initiatives to reduce leverage within Dole and Total Produce.

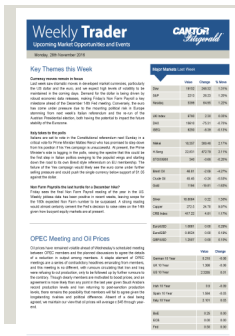
In addition, investors will be keen to get an update on the FDA lettuce issue which impacted the Dole lettuce division and whether that headwind has now passed.

Finally, investors will look to see continued market share gains, volume growth and positive pricing which should help deliver continued organic growth.

Having lowered our recommendation from Buy toward the end of February highlighting that the group looked fully valued, current valuations look very attractive and a solid set of results should provide investors with an opportunity to Buy once again. Total Produce trades on 8.8x 2019 earnings and below book value – a significant discount to historical valuations.

Darren McKinley, CFA | Senior Equity 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.

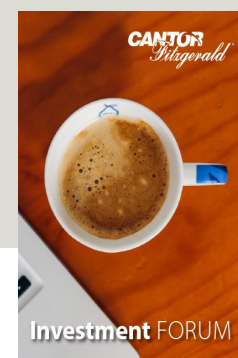
[Click Here](#)



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)

Total Produce PLC : Total Produce PLC markets and distributes a wide range of branded fresh produce to pan European and National retailers and wholesaler

Historical Recommendation:

Total Produce PLC: We changed our recommendation from Under Review to Market Perform on the 31/05/2019

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 retail 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 purchase 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