Daily **Note**

Views, news and topics from today's markets

CANTOR Fitzgerald

Thursday, 29th August 2019

Morning Round Up

Boris moves to prorogue Parliament

British Prime Minster Boris Johnson has suspended Parliament ahead of setting out the government's agenda. Parliament is due to be suspended on the 09th of September until the 14th of October. Proroguing parliament ahead of a Queen's speech is common practice, however, the length of time this government has requested is being interpreted as an attempt to limit parliament's ability to block Johnson from taking the UK out of European Union without parliamentary approval. Opposition MPs are banding together to attempt pass legislation over the first three days of parliament before it is suspended to limit the PMs ability to force through a no-deal exit. This move by the PM has escalated the probability of both a no-deal exit and a general election in our view. The pound weakened to €0.9120 on the news as uncertainty continues to build. We continue to advise client to reduce exposure to UK and Irish names ahead of continued volatility into the October 31st deadline.

Italy reach a comprise to stave off election for now

Italian bond yields fell on the news that President Sergio Mattarella will give acting prime minister Giuseppe Conte a mandate for form a new government at a meeting due to happen this morning. Leader of Italy's Five Star party Luigi Di Maio, and Nicola Zingaretti, leader of the Democratic Party, told Mr Mattarella on Wednesday that they were willing to form a new coalition, with Conte staying on as premier. Yields on Italian 10-year bonds sank to 0.985%, the lowest level since 2015 with the 2-year yield, an indicator of political sentiment, falling to minus 0.15%. Italy's long-term bonds are one of the only ones in Europe to offer a positive yield. Bond prices across Europe have rallied in recent months in anticipation of a fresh round of bond buying from the ECB when it outlines a stimulus package next month. Further developments in the government formation will be closely watched over the next few days as appointments of party member to key government positions are still under negotiation, any breakdown in the coalition talks would be negative for Italian bond prices.

Bank of Ireland confirm loan sale

Bank of Ireland confirmed the sale of €250mln non performing exposures (NPE) to an affiliate of Cerberus Capital Management. The book includes mortgages predominantly secured by ROI buy-to-let (BTL) investment properties. The transaction will generate approximately €150mln or c. 60c on the €1 to be used for general corporate purposes. The transaction will have a marginal impact of FY19 numbers with the bank's CET 1 marginally higher, and net interest income lower by €3mln. On completion, the bank's NPE ratio will be below 5%.

EUR/GBP 1 Year Price Chart

Source: Bloomberg, CF Research August 2019

Key Upcoming Events

01/09/2019 US China Tariff increase
06/09/2019 US Nonfarm payrolls
09/09/2019 UK Parliament Prorogued

Market View

Shares have risen this morning following positive trade comments from China. A spokesperson from China's commerce ministry confirmed it would not immediately retaliate against the latest US tariff increase and said it was more important to discuss removing the extra duties. Chinese negotiators are expected to visit Washington next month. Elsewhere, the pound has fallen following Boris Johnson's decision to suspend parliament. Bonds have continued to rally with the US 30 year yield now just 1.90%. Oil has risen further this morning after US stock piles fell by more than expected on Tuesday.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26036	258.20	1.00%	11.61%
S&P	2888	18.78	0.65%	15.20%
Nasdaq	7857	29.94	0.38%	18.41%
Nikkei	20461	-18.49	-0.09%	2.23%
Hang Seng	25704	88.02	0.34%	-0.55%
Brent Oil	60.54	0.05	0.08%	12.53%
WTI Oil	56.05	0.27	0.48%	23.43%
Gold	1539	0.03	0.00%	20.00%
€/$	1.1075	0.00	-0.03%	-3.42%
€/£	0.9084	0.00	0.15%	1.05%
£/$	1.2191	0.00	-0.17%	-4.41%

	Yield	Change
German 10 Year	-0.697	0.02
UK 10 Year	0.444	0.00
US 10 Year	1.4962	0.02
Irish 10 Year	-0.089	0.02
Spain 10 Year	0.09	0.03
Italy 10 Year	0.94	-0.1090

Source: Bloomberg, CF Research August 2019

AIB Group - AIB preparing for slower economic growth Closing price €2.25

News

We welcomed AIB management to Cantor Fitzgerald yesterday for a briefing from new CEO Colin Hunt and members of the investor relations team.

Comment

Management retain a somewhat pessimistic outlook over the near term for the global economy and Ireland. They see the slowdown in activity across Europe, global trade tensions and Brexit as significant headwinds to the Irish economy and the operating environment for the bank. The main priority for management is ensuring the balance sheet is the strongest possible position to weather any economic slowdown. Management point to the quality of the loan book, falling NPE levels and strong capital position should leave the bank in a strong position to emerge quickly from any stressed position. It has expectations that any slowdown would likely be less severe than the last global recession as the entire financial system is much better capitalised.

The current interest rate environment is the biggest challenge for the bank, as interest rates are expected to be "lower for longer". AIB's excess liquidity will likely weaken profitability as the proportion of the balance sheet in non-lending interest earning assets (cash & investment securities) increases, while returns on these assets diminish. Costs were another point of discussion. We saw in H1 costs up 6% on the same period last year due to high staff costs and higher depreciation charges. An embargo on hiring contractors should help over the short term, while a reduction in the 1500 employees working on its nonperforming exposure should reduce over time.

Commitment to its pre-IPO pledge to return capital to shareholders remains a priority despite some capital headwinds over the coming 12 months. We estimate that the size of any return will be smaller than previous expected due to TRIM impacts, calendar provisioning and increased regulatory buffers. Our current expectations see €1bn-€1.2bn (or €0.37-€0.44 per share) available. We expect an announcement on excess capital in March 2020, along with an updated medium-term guidance for the bank. We continue to see AIB as the strongest bank amongst its Irish peers, with stronger fundamentals. Looking into year end, Brexit is the primary risk for AIB likely to generate more volatility. Considering recent moves in valuation, we would expect to see a lot of the bad news reflected in its share price. However, with the ECB likely to increase monitory stimulus and European yields remaining lower for longer, we remain cautious.

Pierce Byrne, CFA | Investment Analyst

Irish Continental Group - Solid results but Brexit uncertainty set to drive shares lower Closing price €3.92

News

Irish Continental Group released a solid set of H1/19 results this morning. While both revenues and profits were in line with expectations, growing year on year, top down factors (predominately Brexit) will drive the share price over the short term. H1/19 revenues rose by 6.1% to €166.8m. EBITDA (pre non-trading items) rose by 14.9% to €30m. The Ferries division saw EBITDA rise by 4.8% to €19.7m. This was driven by a -5.7% decline in Car volumes (a factor of the decision in 2018 to withdraw the Dublin Swift fast craft services on the Dublin/ Holyhead route over the winter months) and +7.3% RoRo freight volume growth. The Container and Terminal Division performed strongly as EBITDA rose by 41.1% to €10.3m. This was driven by 7.1% and 5.1% volume growth in Container shipped and Port Lifts respectively. Fuel costs grew by €3.1 million (+13.8%) to €25.5 million. The Oscar Wilde was sold in April 2019 for a deferred consideration of €28.9 million (profit before tax of €14.9 million). Importantly, dividend increased by 5% to 4.42c.

The release provided an update on the period from 1 July 2019 to 24 August 2019. Bearing in mind the weak comparables from last year (Ulysses technical difficulties and W.B Yeats delay), Cars (+14.1%), Total passengers (+13.2%) and RoRo (+25.7%) volumes all grew. For the same period, the Container and Terminal division performed strongly with both Containers (+2.4%) and Port Lifts (+2.6%) growing yoy. The release noted the uncertainty from the global economic slowdown and Brexit. The weaker sterling is having a noticeable adverse effect on UK tourists to Ireland.

Comment

A relatively positive set of results leading the stock to rise slightly on open. Unfortunately, Brexit uncertainty will continue to be drive the share price over the coming months. As the likelihood of a no deal scenario increases, we expect it to continue to trade lower. It is now trading at just 13.5x 12m forward earnings, essentially its lowest level since 2016 (post the Brexit referendum). Longer term, the current price is attractive, however, there will be better opportunities to buy in over coming months.

David Fahy, CFA | Investment Analyst

Total Produce - Dole contribution positively impacts group profitability

Closing price €1.25

News

Total Produce released their interim 2019 results this morning which beat expectations at the headline level due to a solid contribution from Dole offsetting weaker profitability within the Eurozone division. Total revenue was up 39.6% to €3.05bn, adjusted EBITDA up 106% to €117m and adjusted earnings up 70% to 10.3c. Earnings per share was 10-12% ahead of expectations. Dividend was maintained at the same level as last year implying a significantly lower pay-out ratio and full year guidance was maintained.

Dole has delivered to expectations and has increased adjusted EBITDA led by fresh vegetable division. Management comment that the core focus is on extracting synergies and deleveraging.

A review of Total Produce divisions highlights that the Europe -Eurozone division reported a decline in revenue and profitability, its Europe - Non-Eurozone division reported a fall in revenue and its international division excluding Dole reported a fall in profitability despite growing revenue. When you include Dole's share of revenue and profits, Total Produce reported a surge in profitability with group EBITA margin increasing from 2.1% to 3%.

A possible concern for investors, which is weighing on the share price, is that group's net debt has increased from €113m at the start of FY 2018 to €294m at the end of interim 2019. Operating cash flow and free cash flow metrics have also trended lower. While net debt has gone up, the groups tangible assets have also gone up in value by over €100m.

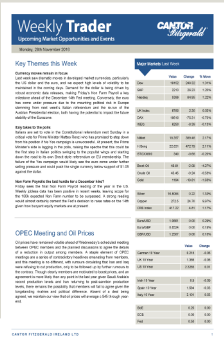
A review of Doles financial highlights would imply that the group is progressing with regard to profitability when compared to how Dole was marketed upon the Dole transaction in 2018.

Comment

Overall, revenue and earnings per shares trends are positive. The Dole update was also positive in our view. We have a meeting with Total Produce management today which we intend to follow up on Eurozone profitability issues, Dole profitability trends, balance sheet flexibility, and cash flow trends. We will have a clearer view on the investment case then and will review our recommendation. The decline in the share price looks overdone relative to earnings trends but we would like comfort on the cashflow trends from here.

Darren McKinley, CFA | Senior Equity Analyst

Cantor Publications & Resources



Weekly Trader

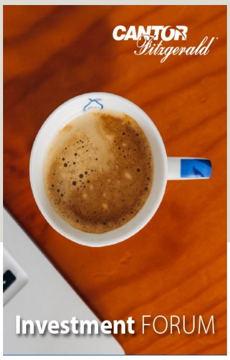
On Mondays, we release our weekly note in which we provide a view on equity markets for the coming days, and highlight a number of equities which we believe provide exposure to the important themes unfolding in the markets. Our in-house Investment Committee meets on a weekly basis to craft this strategy, 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)

Irish Continental Group plc: ICG markets holiday packages and provides passenger transport, roll-on and roll-off freight transport, and container lift on and lift-off freight services between Ireland, the United Kingdom and Continental Europe

AIB Group: AIB Group plc attracts deposits and offers commercial banking services.

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:

Irish Continental Group plc: We moved our rating from Under Review to Outperform on the 26/11/2018

AIB Group: AIB Group is a member of our core portfolio and we have an Outperform rating on the stock since 12/12/2018

Total Produce PLC: We changed our recommendation from Market Perform to Under Review on the 29/08/2019

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