

Tuesday, 10th September 2019

Morning Round Up

The House of Commons prorogued until mid October

After losing his 6th consecutive vote last night to dissolve parliament and trigger a general election, Prime Minister Johnson now faces a five week stint to deliver Brexit or face requesting an extension from Europe. As of this morning prorogation is in force leaving parliament suspended until the 14th of October, ahead of the crucial EU Leaders Summit starting on the 17th of October. Mr Johnson's options are limited, having consistently committed to his pledge to leave the EU by the 31st of October. Mr Johnson's best option to deliver Brexit remains Theresa May's Withdrawal Agreement with an amendment to the Irish Backstop to include Northern Ireland. The Democratic Unionists Party (DUP) will present the strongest opposition to such a deal despite no longer giving the Conservative Party a majority. We would expect the DUP to leverage the Good Friday Agreement in opposition to an NI only backstop. We would also expect the hard line right wing aspect of the Tory party to view this as a "Brexit in Name Only" scenario, and offer significant opposition. It's difficult to see the EU offering any other concessions to the Withdrawal Agreement as the probability of this parliament surviving beyond November remains slim. In the event that Mr Johnson fails to bring a new deal to parliament, the law of the land states he must seek an extension to Article 50. Senior cabinet ministers have stressed that the PM will follow the law but will test the legislation to the limit to avoid seeking an extension, taking his argument to the Supreme Court if necessary. To add further drama to the closing weeks of October, Speaker of the House, John Bercow, has stepped down from his position effective on the 31st of October. Mr Bercow's timing cannot go unnoticed as he ensures the current parliament elects the next Speaker of the House. While markets have acknowledged the positivity of parliament's opposition to a no deal exit, the risk and uncertainty remain high. Ultimately this Brexit impasse will have to go to the people, likely through a general election, with parties committing to Brexit positions. We expect a continuation of sterling and UK/Ireland equity market volatility to continue beyond October.

Saudi Arabia's new Energy Minister set to buoy oil prices

Abdula bin Salman, the newly appointed Saudi Energy Minister, is set to continue to keep oil prices elevated through production cuts for the foreseeable future. He will do so in what in an ever increasingly difficult environment for the commodity. Demand growth is faltering with slowing economic growth, trade wars and the shift to greener energy sources. On the supply side the US continues to see its shale production capabilities increase. The Energy Minister said he plans no radical changes to the kingdom's oil policy. Oil price has maintained recent gains on the back of the news with Brent and WTI trading at \$63 and \$58 a barrel respectively.

Ashtead reports very strong quarter driven by North America

Ashtead group reported another quarter of strong growth in revenue and profits led by North American markets. Management continue to be positive on the outlook in the medium term. The group reported 17% growth in revenue and 12% growth in earnings per share. Sunbelt US & Canada reported 18% and 23% growth respectively while the UK was much softer reporting only 5% revenue growth and 10% fall in EBITDA. £500m buyback ongoing. Management continue to guide for 9-12% organic growth in SunBelt Rentals with the latest quarter delivering 12%. We have recommended United Rentals as Buy in our weekly trader earlier in the year and this result supports the recommendation.

Source: Bloomberg, CF Research September 2019

Key Upcoming Events

06/09/2019 US Nonfarm payrolls
09/09/2019 UK Parliament Prorogued
12/09/2019 ECB Governing Council
18/09/2019 FOMC Decision

Market View

European shares opened slightly lower this morning, while bonds remained relatively unchanged. There has been a solid jump in yields over the past number of days following slightly more optimism in the markets regarding trade, Brexit and the Hong Kong situation. The market is also becoming a little more sceptical on the extent to which the ECB and the Fed will deliver on the much anticipated interest rate announcements. Elsewhere, oil has gained again today after Saudi Arabia's new energy minister signalled his commitment to production cuts ahead of OPEC's meeting next week.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26836	38.05	0.14%	15.04%
S&P	2978	-0.28	-0.01%	18.81%
Nasdaq	8087	-15.64	-0.19%	21.89%

Nikkei	21392	73.68	0.35%	6.88%
Hang Seng	26657	-24.36	-0.09%	3.14%

Brent Oil	62.58	-0.01	-0.02%	16.32%
WTI Oil	57.96	0.11	0.19%	27.64%
Gold	1496	-2.81	-0.19%	16.67%

€/\$	1.1042	0.00	-0.05%	-3.71%
€/£	0.8962	0.00	0.15%	-0.30%
£/\$	1.232	0.00	-0.21%	-3.40%

	Yield	Change
German 10 Year	-0.582	0.00
UK 10 Year	0.578	-0.01
US 10 Year	1.6215	-0.02

Irish 10 Year	0.012	0.01
Spain 10 Year	0.232	0.01
Italy 10 Year	0.94	-0.0080

Source: Bloomberg, CF Research September 2019

CPL Resources - Business going from strength to strength

Closing Price: €6.55

News

CPL Resources reported record results for FY 2019 with the highlights including 8% revenue growth to €565m, 16% increase in net fee income to €96.3m, 37% increase in earnings per share to 77.3c and a 41% increase in the dividend per share to 19c. Earnings growth was partially driven by a 100bps increase in operating margin to 4.4%. Balance sheet strengthened further with the group reporting €40.1m in net cash (c.25% of market cap). Management remain positive on the outlook albeit not without Brexit risk.

Investment in technology, integration of acquisitions and a core focus on growing the flexible talent division were key drivers of a record year in 2019. The roll out of new managed solutions product Covalen across Europe should help deliver growth in medium term.

Unexpectedly, deputy CEO Mark Buckley has resigned from the group to pursue other opportunities.

Comment

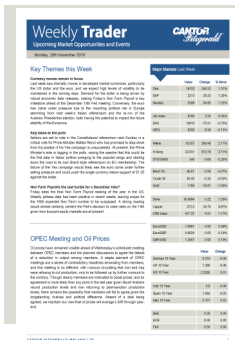
Another strong result from CPL Resources which we have rated as an outperform for some time. At the interim results in January we valued group shares at €8 which implied 30% upside. This morning CPL trades at €6.90 which would still imply upside to our historical fair value of €8.

The strong cash flow generation is very impressive which strengthens the investment case. CPL trades on 7.5x earnings when adjusted for cash. We will review our fair value over the coming weeks and hope to get management in house.

We view the departure of Mark Buckley as a loss to the company but confident that Ann and her team will have prepared for such an event.

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.

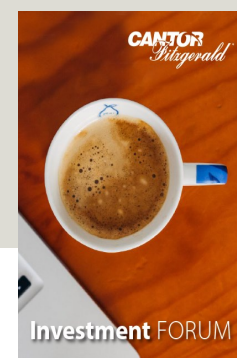
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Cpl Resources: CPL Resources specializes in the provision of permanent and contract IT professionals throughout Ireland

Historical Recommendation:

Cpl Resources: We have moved CPL to under review from outperform on the 10/09/2019

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