Weekly **Trader**

Upcoming Market Opportunities and Events

CANTOR Fitzgerald

Monday, 9th September 2019

Key Themes This Week

The Week Ahead

Last week saw global stock markets post gains as the bond rally took pause as positive news fed through across Trade, Hong Kong and Brexit. US yields rose from recent lows of 1.42% to 1.57%, while its German equivalent rose from -74bps to -62bps. As a result, we saw global equity markets post strong gains with the S&P 500 up 1.8%, Europe's STOXX 600 finished the week up by 1.7% and Shanghai's Composite Index finishing up 3.9% on the week. This week Brexit and Trade will continue to drive volatility, while investors look to the ECB to deliver on bond market expectations for stimulus.

After one of the most dramatic weeks in British politics, we are expecting more twists early in the week ahead of proroguing Parliament before Thursday. Mr Johnson is in Dublin this morning to meet with Irish Taoiseach Leo Varadkar before returning to Commons later looking for a two thirds majority on calling an election for October 19th. The PM's visit to Dublin will likely be focused on the Irish Backstop, which is a redline Mr Johnson has vowed not to concede on. Dublin and Brussels are still waiting for credible alternatives to the backstop, which appears not to be forthcoming from London. Back in Commons later today, Mr Johnson is expected to lose another vote after another high profile resignation over the weekend. Amber Rudd, the Pensions Secretary, resigned from both Government and the Conservative party yesterday citing the PM's strategy on Brexit. Finally on the Brexit Front, Jeremy Corbyn's Brexit Delay bill is expected to receive Royal Ascent today after passing through both houses of parliament last week. Government ministers have been extremely critical of the bill and vowed to "test to the limit what it actually lawfully requires".

As with Brexit, US-China trade hangs over global equity markets. China's central bank moved to cut its required reserve ratio by 50bps as it attempts to limit the impact of this on-going trade war. Chinese trade data came in weaker than expected overnight with the balance of trade falling short by almost $10bn in August. A contraction in exports was the major driver of the miss as the impacts of trade uncertainty become more evident. US data has also been week with a miss in Jobs data on Friday will focus attentions on the Federal Reserve meeting in 10 days time. The market has been buoyed by the announcement of face to face negotiations in October. However as we have come to expect, the announcement lacks any concrete detail regarding the meeting, leaving the market waiting for any sign of progress.

The ECB will undoubtedly command the attentions of the majority of market participants this week. Equity and Bond markets have rallied on the expectation that central banks will turn on the monetary stimulus tap this month. The market is fully price for a 10bps cut in the ECB's Deposit rate, with the likely introduction of protections for Banks through a tiered application of negative rates. The market is also expect the reintroduction of the ECB's quantitative easing program. While QE may not be announced as part of the September measures, we would expect Mr Draghi to set firm guidance on its reintroduction ahead of handing the reins over to Christine Lagarde. Sentiment post the meeting will be important as the market has moved to price in a lot of additional monetary stimulus, which has helped drive equities to current levels. Despite more hawkish warnings from Central Bankers across the region including German France and the Netherlands.

On the data front we have a number of Inflation readings from the US, China and Europe through out the week. As well as retail sales data out of the US on Friday and industrial production numbers from Europe and Japan.

This week we cover off Kennedy Wilson, Dalata Hotels, Coca Cola and Bond Proxies.

Major Markets Last Week

	Value	Change	% Move
Dow	26797	435.21	1.65%
S&P	2979	54.13	1.85%
Nasdaq	8103	129.68	1.63%
MSCI UK	16109	30.33	0.19%
DAX	12195	240.77	2.01%
ISEQ	6055	145.17	2.46%
Nikkei	21318	698.23	3.39%
H.Seng	26662	1035.54	4.04%
STOXX600	387	6.14	1.61%
Brent Oil	61.88	3.22	5.49%
Crude Oil	56.84	1.74	3.16%
Gold	1507	-22.50	-1.47%
Silver	18.0544	-0.42	-2.25%
Copper	261.75	6.60	2.59%
CRB Index	386.94	-0.21	-0.05%
Euro/USD	1.1036	0.01	0.60%
Euro/GBP	0.8981	-0.01	-1.22%
GBP/USD	1.2288	0.02	1.84%

	Value	Change
German 10 Year	-0.6	0.10
UK 10 Year	0.545	0.13
US 10 Year	1.5976	0.10
Irish 10 Year	-0.018	0.05
Spain 10 Year	0.203	0.08
Italy 10 Year	0.923	-0.04
BoE	0.75	0.00
ECB	0.00	0.00
Fed	2.25	0.00

All data sourced from Bloomberg

Opportunities this week

CFI Research Team

Kennedy - Wilson (KW US)

Closing Price: $21.43

Key Metrics	2019e	2020e	2021e
Revenue ($'Mn)	658.0	681.0	n/a
EPS ($)	1.78	1.44	n/a
Price/ Earnings	12.03x	14.93x	n/a
Div Yield	3.97%	4.15%	n/a

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
KW US	0.80%	3.78%	17.94%

Source: All data & charts from Bloomberg & CFI

- Kennedy Wilson is a global real estate company which predominantly owns multi-family (apartments) and office assets across west coast US, London and parts of Europe. In addition, the group offers real estate services to institutional and financial companies across the globe.
- KW's asset base is no better exemplified then by reviewing their assets in Dublin which include the Shelbourne hotel, Capital Dock, Baggot Plaza, Clancy Quay and Vantage, Central Park.
- Kennedy Wilson Europe was acquired by Kennedy Wilson (KW). This was opportunistic by KW US post referendum sterling weakness.
- Asset base consists of 28,892 multi-family units (14m sqft), 192 commercial units (12m sqft) and some non-core retail(4m sqft) and hotel assets(3m sqft). 94% occupancy
- Their portfolio is diversified across the US (48%), UK (24%), Ireland (23%) and Spain/Italy (5%). Office and residential assets make up over 80% of their assets
- KW's $5.7bn of net debt is 94% fixed or hedged at an average interest rate of 3.9% and 5.3 year term. Loan to value is approximately 55%
- KW recorded $713m in adjusted EBITDA on an asset base of $16bn AUM. They paid out c.78% of income as a dividend in 2018 = 4%
- 30% upside to average analysts target price. Technically sitting on 200dma

Dalata Hotels Group (DHG ID)

Closing Price: €4.85

Key Metrics	2019e	2020e	2021e
Revenue (€'Mn)	436.3	448.0	506.0
EPS (€)	0.44	0.46	1.32
Price/ Earnings	10.96x	10.42x	3.66x
Div Yield	2.28%	2.42%	1.24%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
DHG ID	8.74%	-12.45%	2.43%

Source: All data & charts from Bloomberg & CFI

- Dalata Hotel Group owns and operates 9,000 3 and 4* hotel rooms across Ireland and the UK via the Clayton and Maldron hotel brands
- Over the next 3 years, the company will add an additional 2,400 rooms which will be a key driver of earnings growth over the long term
- Dalata shares have declined by 28% over the last year on concerns that Brexit will negatively impact profitability. As a result DHG now trades on 11x earnings and at a discount to its book value – very much pricing in a fall out of some sort by Brexit
- Management delivered a better than expected interim result last week, within which they grew operating cash flow by 50% and raised their dividend by 17%
- Interim revenue grew by 12% to €202m, EBITDA grew by 18% and adjusted earnings per share grew by 8.4% for H1 2019
- We sold Dalata Hotel Group earlier in the year above €6 and we think the correction adequately prices in the Brexit risks and that the recent results support our recommendation that its shares should outperform from current levels
- While Dublin RevPAR turned negative in the first half, expectations of a better event calendar in second half supports the RevPAR outlook
- Management were also very optimistic on the outlook for the UK by way of the business that exists and the opportunity
- Our fair value is €5.50 based on recent results which implies c.15% total return over the next 12 months

Opportunities this week

CFI Research Team

Sell Coca Cola (KO US)

Closing Price: $55.23

Key Metrics	2019e	2020e	2021e
Revenue ($'Mn)	37183.6	39065.9	41129.7
EPS ($)	2.11	2.29	2.47
Price/ Earnings	26.2x	24.12x	22.36x
Div Yield	2.92%	3.07%	3.24%

Source: All data & charts from Bloomberg & CFI

Total Return	1 Mth	3 Mth	YTD
KO US	6.93%	8.76%	16.64%

Source: All data & charts from Bloomberg & CFI

- Coca Cola has delivered a strong run up 16.2% year to date and up 23% from recent FY19 lows of $44.69.
- Valuation remains the strongest argument to sell Coca Cola as it currently trades at 24.6x forward earnings against its 5 year average of 21.55x.
- The broader consumer staples sector has also had strong run in the US but valuations are only marginally higher than its long run average at 20x versus 19.1x.
- Coca Cola's strong dividend, c. 3%, continues to look attractive against treasury yields. However, with yields moving off recent lows, a continuation higher in yields will detract from the stock from an income point of view.
- A move higher in yields could trigger a sector rotation in the market with more growth oriented names outperforming, reversing some off the gains Coca Cola have delivered this year.
- 45% of revenues are generated outside of the US. With the dollar continuing to strengthen against most currencies this will provide a headwind to achieving management's growth targets.
- We retain a positive outlook for Coca Cola and note that management are executing on its strategy to diversify away from high sugar carbonate drinks and deliver medium term organic growth between 5%-7%.
- Considering valuation we believe a lot of the positive news is already reflected in the price and downgrade our recommendation to Market Perform from Outperform.

Bond Proxies

- Over the last week, we have seen a surge in yields off low levels as investors reacted to a number of positive events over the last week
- These events include the expected formal withdrawal of the China extradition bill, US/China trade meeting agreed for October and Brexit "no-Deal" law being processed. We expect these events to dominate headlines through to mid-October.
- In addition, expectations that the ECB could announce QE measures next week goes against the commentary coming from board members over the last week or two. Disappointment by the ECB could also see bond yields surge higher. A less dovish Fed the following week could also impact similarly
- The initial reaction this week to bond yields rising has been a c.10% drop in value of some bonds, the underperformance of bond proxies (staples, REITs, gold, utilities). In the short term while these events discussed above play-out, we could see bond yields continue to bounce leading to more of the same
- Given that some defensives/staples have increased in value by 20-30% over the last year and trade on very high valuation multiples, despite being on course to only deliver between 5-12% earnings growth, we use the current strength to trim some exposure to expensive staples – positioning us to pick some up in weakness
- Our Core fund has sold out of Coca-Cola on this basis and trimmed our exposure to Newmont Goldcorp as both have delivered 20%+ since being added to the portfolio. Our Core Portfolio's Beta is still less than 1 and therefore defensive, but tactically "less defensive"
- Kerry Group, Diageo, Green REIT, I-RES, Hibernia REIT, Danone and Unilever are other "bond proxy" names that may underperform in the very short term

From the News - Monday’s Headlines

- **Global** Washington pushes EU for tougher sanctions on Venezuela
- **US** Mexico says it has dramatically curbed US migration
- **Europe** Draghi Primes ECB Easing That Will Test Global Currency Defenses
- **UK** Rudd Quits Boris Johnson’s Cabinet With Attack on Brexit Strategy
- **Ireland** Ireland’s Bonds Seen Increasingly Risky as Brexit Nears Endgame

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	**Corporate**	**Corporate**	**Corporate**	**Corporate**
Associated British Foods	CPL Resources	Inditex Hermes International	Greencoat Renewables Cairn Homes Kroger	n/a
Economic	**Economic**	**Economic**	**Economic**	**Economic**
DE Trade Data GB Trade Data US Consumer Inflation Expectations	CN Inflation Data GB Employment Data	CN Vehicle Sales US PPI US Wholesale Inventories	DE Inflation Data FR Inflation Data EA Industrial Production EA ECB Decision US Inflation Data	JP Industrial Production EA Trade Data US Retail Sales US Michigan Consumer Sentiment

Upcoming Events

16/09/2019 Oracle Corp

17/09/2019 Ocado, FedEx, Adobe Inc

18/09/2019 Kingfisher, General Mills

19/09/2019 Next, IG Group

20/09/2019 Applegreen, Providence Resources

16/09/2019 CN Retail Sales, CN Industrial Production, IT Inflation Rate, US NY Empire State Manuf

17/09/2019 EA/DE ZEW Econ Sentiment, US Industrial Prod

18/09/2019 JP Trade Data, GB/EA Inflation Data, EA Construction Data, US Housing Data, US Fed Decision

19/09/2019 JP BoJ Decision, GB BOE Decision,

20/09/2019 JP Inflation Data, GB Retail Sales, EA Consumer Confidence

All data sourced from Bloomberg

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Market View

Daily Note

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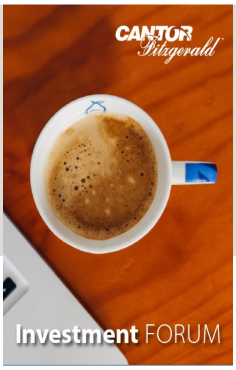

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Allianz: Allianz through its subsidiaries, provides insurance and financial services.
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Caterpillar Inc.: Caterpillar designs, manufactures, and markets construction, mining, and forestry machinery.
CRH: CRH is a global building materials group.
Dalata Hotel Group: Dalata Hotel Group owns and operates as a chain of hotels.
DCC: DCC is a sales, marketing, distribution and business support services company.
Glanbia: Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States
Kingspan: Kingspan is a global market player in high performance insulation and building envelope technologies.
Microsoft: Microsoft Corporation develops, manufactures, licenses, sells, and supports software products.
PayPal: PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants
Pfizer: Pfizer Inc. operates as a pharmaceutical company. The Company offers medicines, vaccines, medical devices, and consumer healthcare products for oncology, inflammation, cardiovascular, and other therapeutic areas
Rio Tinto plc: Rio Tinto is an international mining company.
Royal Dutch Shell: Royal Dutch Shell explores, produces, and refines petroleum
Ryanair: Ryanair Holdings plc provides low fare passenger airline services to destinations in Europe.
SAP: SAP is a software corporation that makes enterprise software
Smurfit Kappa: Smurfit Kappa manufactures paper packaging products
UnitedHealth Group: UnitedHealth owns and manages organized health systems in the United States and internationally
Verizon: Verizon Communications Inc. is an integrated telecommunications company that provides wire line voice and data services, wireless services, internet services, and published directory information.
VINCI SA: VINCI is a global player in concessions and construction with expertise in building, civil, hydraulic, and electrical engineering
Danone: Danone operates as a food processing company. The Company produces and markets dairy products, beverages, baby food, and medical nutrition products.
Total: TOTAL S.A. explores for, produces, refines, transports, and markets oil and natural gas. The Company also operates a chemical division which produces polypropylene, polyethylene, polystyrene, rubber, paint, ink, adhesives, and resins.
Newmont Goldcorp: Newmont acquires, explores, and develops mineral properties.
Greencoat Renewables: Greencoat operates as an investment company. The Company invests in wind and renewable electricity generation assets.
Sanofi: Sanofi operates as a pharmaceutical company. The Company manufactures prescription pharmaceuticals and vaccines. Sanofi also develops cardiovascular, thrombosis, metabolic disorder, central nervous system, and oncology medicines and drugs.
Engie: Engie is a global energy and services utility company
FedEx: FedEx delivers packages and freight to multiple countries and territories through an integrated global network
Kennedy Wilson: Kennedy-Wilson Holdings, Inc. operates as a global real estate investment company

None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.
Kennedy Wilson: This was moved to Outperform on 26 August 2019
Coca Cola: We downgraded Coca Cola to Market Perform on 06/09/2019

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