

Tuesday, 01st October 2019

Morning Round Up

Leaked Brexit non papers a non starter

RTE news reported on one of the proposed UK “non paper” solutions to the Irish border, which included installing a series of customs posts either side of the border in addition to monitoring real time GPS data from mobile phones and tracking devices. Sources close to the Prime Minister are indicating that Mr Johnson will lay out his proposed solution to the backstop as part of his closing speech at the Conservative Party Conference. This should give markets a clearer view on whether a deal can be achieved ahead of the summit on the 17th of October. The pound has remained optimistic since the opposition parties organised to limit Johnson’s no deal strategy despite all the political volatility. The pound would likely strengthen in the event of a workable deal emerging later in the week. If Mr Johnson’s deal isn’t viable and is dismissed by EU leaders, focus will turn to the Benn Act and whether the PM can force a no deal as he has continuously pledged. The most probable outcome remains an Article 50 extension and a general election in November. The result of which will determine the future course of Brexit.

WeWork potentially has a liquidity issue

WeWork has formally pulled its IPO resulting in the departure of its CEO/ founder Adam Neuman. The failure to deliver on an IPO has left the group scrambling for cash and could see the company run out of money by Spring 2020. WeWork leases office blocks and fits them out for clients to rent flexible office spaces. As of 2018, We Work manages 46.6m sq ft of office space. Softbank has invested \$10.7bn in WeWork and owns 29% of the group – having invested in it recently at a valuation of \$47bn. WeWork lost \$900m in H1 and recorded a loss of \$1.6bn last year. WeWork has never made a profit despite raising \$12bn in capital since being formed. Some analysts put a valuation on WeWork of as low as \$12bn implying a collapse in valuation that some investors bought in at. Judging by the fact that its bonds trade currently with an 11.6% yield, \$12bn equity valuation could be generous.

Providence Resources ends APEC exclusivity

Providence Resource shareholders are out of luck. In September alone, shareholders witnessed an interim loss of €5.3m which was significantly related to an impairment of €2.9m at its Newgrange license. Then the Chinese consortium (APEC) said that the \$9m stage one payment was being transferred between banks but the payment never arrived despite Providence continually extending the timeline for payment. Due to liquidity issues, Providence has raised \$3.8m in new capital to fund the restructuring of the company and working capital through 2021. Operating costs will decline by 65% post restructuring with effectively no operating personal left at the company level. APEC farm-out exclusivity has now concluded without payment. Providence management are now left back were they started – trying to flog the oil rich Barryroe to outside investors. Recent Irish governments plans to phase out oil production doesn’t help.

Merian Global Equity Absolute Return

With both global equities and bonds having such a strong run so far this year, alternative strategies such as the Merian Global Equity Absolute Return fund are attractive in order to diversify return drives of a portfolio. However, despite its attractive longer term track record and that it delivered positive return in the extreme sell offs seen in December 18 and May of this year (2.18% & 0.69% v MSCI World -8.48% & -5.23%) its relatively high negative returns in more recent months make the strategy too costly to hold and we believe there are better alternatives in the asset class. The fund has gone through a prolonged period of not meeting its objective and therefore we recommend selling the Merian Global Equity Absolute Return fund. The fund has continuously failed to meet its objective of an absolute return over rolling 12-month periods. It has failed to meet this objective for the last 13 months in a row. Another cause for concern is the large redemptions the fund has seen.

This year alone investors

Source: Bloomberg, CF Research October 2019

Key Upcoming Events

17/10/2019 ECB Leaders Summit
31/10/2019 Brexit Day

Market View

European equity markets have followed US markets higher this morning. This solid open is again driven by the cyclical sectors with Information Technology, Consumer Discretionary and Industrials rising by over 0.5%. The pound remains relatively unchanged (EURGBP £0.885) despite the backlash against Boris Johnson’s reported proposals to replace the Irish backstop. Yields have continued to push higher with the US ten year yield and German ten yield back at 1.72% and -53.4bps respectively. On the data front European core inflation and the US ISM Manufacturing will be important later today.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26917	96.58	0.36%	15.39%
S&P	2977	14.95	0.50%	18.74%
Nasdaq	7999	59.71	0.75%	20.56%

Nikkei	21885	129.40	0.59%	9.35%
Hang Seng	26092	137.46	0.53%	0.95%

Brent Oil	59.7	0.52	0.88%	11.10%
WTI Oil	54.57	0.50	0.92%	20.17%
Gold	1460	-12.58	-0.85%	13.83%

€/\$	1.0888	-0.0011	-0.10%	-5.05%
€/£	0.8861	-0.0007	-0.08%	-1.43%
£/\$	1.2288	-0.0001	-0.01%	-3.65%

	Yield	Change
German 10 Year	-0.529	0.042
UK 10 Year	0.546	0.052
US 10 Year	1.729	0.062

Irish 10 Year	0.014	0.043
Spain 10 Year	0.19	0.043
Italy 10 Year	0.865	0.043

Source: Bloomberg, CF Research October 2019

Origin Enterprises - Reports solid FY 2019 result

Closing price €5.12

News

Origin Enterprises released preliminary FY 2019 financial results last week which beat our expectations driven by a better than expected outcome in the UK and Latin America. Origin reported an 10.5% increase in group revenue to €1.8bn and a 15.6% increase in operating profit to €82.3m. Including associates and JV's, group operating profit increased by 13.5% to €89m. Underlying volumes grew by 4% and group operating margin increased by 20bps as higher ASP's offset higher commodity prices. Origin finished the period with net debt to EBITDA of 0.9x.

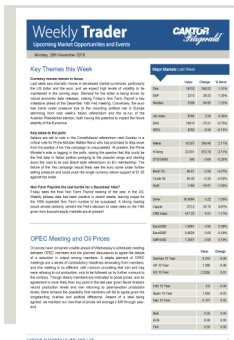
Origin's UK & Ireland division reported 6.8% volume growth leading to 11.7% revenue growth. Operating profit grew by 9.5% and 8.6% at underlying level. Digital agricultural services is gaining further traction and helping to deliver strong returns. Continental Europe disappointed due to challenges in Ukraine despite decent performances in Poland, Romania and Belgium. Latin America integration is on track and going to plan – delivering €8.1m in operating profit in 2019. Group operating cashflow increased by 16% and group net debt closed the period at €75.6m.

Comment

Strong performance from Origin which beat expectations. Guidance is slightly more cautious as cycling tough comps in 2019. Continued integration of LatAm will delivery string returns for clients over medium term. We continue to like Origin Enterprises from a valuation, dividend and growth perspective.

Darren McKinley, CFA | Senior Equity Analyst

Cantor Publications & Resources



Weekly Trader

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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Origin Enterprises: Origin Enterprises is a focused Agri-Services Group with strategic investments in consumer foods and marine proteins and oils.

Historical Recommendation:

Origin Enterprises: We have an Outperform rating on Origin since the 23/11/2018

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