Daily Note

Views, news and topics from today's markets

Tuesday, 08th October 2019

Morning Round Up

Trade continues to weigh on economic activity

Investors looking for some binding resolution that can offer improved certainty to the global trade environment will likely be found wanting. Vice Premier Liu He will lead a Chinese delegation for high level talks this week, however, expectations are muted as the scope for discussion where narrowed over the weekend. US Commerce Secretary Wilbur Ross announced an additional 28 Chinese companies added to the entity list (restricting trade) on Monday. The move will likely be seen as an escalation of tensions. Both the narrowing of the scope of talks and the US adding more Chinese companies to its entity list do not bode well ahead of this weeks talks. As the 2020 Presidential election rolls around, President Trump will be keen to deliver a win from his Trade war with China. However, Beijing may hold firm and try its luck with the next administration, which could prove a significant hurdle for re-election.

easyJet releases a sold trading update

Prior to its full year results, which are set to be released next month, easyJet provided a solid trading update this morning. However, recent strength had left the market anticipating more, leading the stock to decline by 5% on open. In the release it guided for full year profit before tax of between £420 - £430m, the upper end of its previous guidance of £400-£440m. The midpoint of this guidance (£425m) is also in line with current market expectations. Passenger numbers for the full year increased by 8.6% to 96m, predominately driven by 10.3% capacity growth. This will mean a lower load factor of 91.5%. Revenue per seat will decrease by -2.7% for the full year. However, aided by disputes at BA and Ryanair, revenue per seat for H2 was revised upwards from "slightly down" to +0.8%. Total cost are to increase by 12% due to the higher capacity, higher fuel and adverse FX. Cost per seat is set to fall by 0.8%. Looking toward the next guarter (Q1/20) forward bookings are in line with the same period last year and capacity growth is set to fall to just +2%. Management has guided for lower capacity growth for the full year compared to its historical trend. There are a number of positive points from this release. After a difficult year across the sector, coming in ahead of the midpoint of its guidance is encouraging. The improvement in the revenue per seat and the lower capacity growth should be welcomed across the airline sector. Capacity growth across the industry has come down and moved negative in a number of locations. This along with the failure of Thomas Cook, Adria Airwarys, XL Airways and Aigle Azur over the past month should help to stabilise fares for easyJet and Ryanair, who report next month.

SIG plc sell panels unit to Kingspan

SIG plc sold its building envelope solutions unit to Kingspan for £37.5mln. The unit generated £60mln IN revenues with c. £3.3mln in profits, which represents a margin of c. 5.5%. This lags well behind Kingspan's group margin of 10.3%. The deal was cheap in comparison to Kingspan at 11.5x operating profit (Kingspan's trailing multiple c. 22x). More concerning in SIG's announcement was some bleak forward guidance for its own business. The trading update reported a deterioration in the level of construction activity in key markets and expectations of further weakness, notably in the UK and in Germany. Resulting in full year guidance reporting significantly lower underlying profitability for the full year than its previous expectations. Lower construction activity across Europe will likely pose a headwind for both CRH and Kingspan into year end and 2020.

Employment outlook deteriorating

PageGroup, the recruiter, has said that they have seen a deterioration in trading conditions across most regions they operate in during Q3. This includes UK, US, Germany and mainland China. Its shares fell by c.8% this morning on these comments.

CANTOR Jitzgerald

Key Upcoming Events

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

Market View

European equity markets have opened lower this morning after China signalled it would retaliate against the US for blacklisting 28 Chinese companies for human rights violations against Muslim minorities. US-China relations is set to be a key driver of sentiment over the coming days with the trade delegation meeting on Thursday. Data was mixed this morning with China's Caixin Services PMI coming in below expectations at 51.3, while German Industrial Production rose unexpectedly by 0.3%. Elsewhere, the pound has continued to weaken with EURGBP reaching £0.895. Oil remains lower at \$52.80 (WTI).

Market N	Market Moves						
	Value	Change	% Change	% Change YTD			
Dow Jones	26478	-95.70	-0.36%	13.51%			
S&P	2939	-13.22	-0.45%	17.23%			
Nasdaq	7956	-26.18	-0.33%	19.91%			
Nikkei	21588	212.53	0.99%	7.86%			
Hang Seng	25893	72.37	0.28%	0.18%			
Brent Oil	58.62	0.27	0.46%	8.96%			
WTI Oil	52.95	0.20	0.38%	16.60%			
Gold	1499	5.64	0.38%	16.89%			
€/\$	1.0991	0.00	0.18%	-4.15%			
€/£	0.8955	0.00	0.33%	-0.39%			
£/\$	1.2274	0.00	-0.15%	-3.76%			
			Yield	Change			
German 10 Year			-0.581	-0.01			
UK 10 Year			0.434	-0.02			
US 10 Year			1.5477	-0.01			
Irish 10 Year			-0.026	-0.01			
Spain 10 Year			0.131	-0.01			
Italy 10 Year			0.84	-0.0090			

Source: Bloomberg, CF Research October 2019

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Closing price €0.62

Aryzta - Green shoots and stability visible

News

ARYZTA AG released FY 2019 financial results this morning reporting that underlying group EBITDA grew by 1.9% to €308m despite revenue declining by 1.5% to €3.38bn. The group reported 30bps margin improvement to 9.1% as its cost out programme started to feed in and organic revenue growth stabilised. ARYZTA having agreed to sell Picard, has now realised 85% of its non-core asset sales and its balance sheet leverage has declined to 2.4x EBITDA.

Europe recorded 1.9% organic growth, North America reported -3.8% organic growth and ROW reported 8.9% organic growth. Group net profit increased by 50% to €74m. Operating cash generation increased by 33%. The key driver of profit growth was revenue growth in Europe and ROW and margin improvement in North America.

Management have guided that the business has now stabilised and despite H1 2020 softness in North America, both North America and the group are expected to report growth in EBITDA in 2020.

Comment

Green shoots are visible at ARYZTA after a prolonged period of restructuring. Costs are coming out, non-core businesses are being sold, US business model is refocused and EBITDA has stabilised with guidance for improvement in 2020.

The group is on course for 10-12c earnings per share next year which implies that ARYZTA trades on c.5-6x forward earnings. It addition it trades on 0.28x book value and 6.5x EV/EBITDA.

Our recent recommendation on ARYZTA is offside, having raised it on the capital raising, but this result does give us some comfort. I would expect some peer analysts who value their shares at over €1.80 to reiterate this recommendation. At present, you are buying ARZYTA at multi-year low valuations despite depressed earnings. If the green shoots can flourish, and earnings grow, then there could be considerable upside from here over the next 6-12 months. Outperform.

Darren McKinley, CFA | Senior Equity Analyst

Cantor Publications & Resources

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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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Click here

Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

Aryzta: Aryzta produces and retails specialty bakery products.

Historical Recommendation:

Aryzta: We changed our recommendation for Aryzta to Outperform from Underperform on 16/11/2018

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