

Tuesday, 08<sup>th</sup> 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 solid 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 quarter (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 Airways, 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 £37.5mIn. The unit generated £60mIn IN revenues with c. £3.3mIn 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.

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 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 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

**Aryzta** - Green shoots and stability visible

Closing price €0.62

**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**

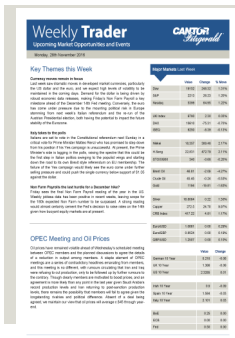
Green shoots are visible at ARYZTA after a prolonged period of restructuring. Costs are coming out, non-core businesses are being sold, US business model is refocused and EBITDA has stabilised with guidance for improvement in 2020.

The group is on course for 10-12c earnings per share next year which implies that ARYZTA trades on c.5-6x forward earnings. In 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 ARYZTA 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



## 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)**

**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

[http://www.cantorfitzgerald.ie/research\\_disclosures.php](http://www.cantorfitzgerald.ie/research_disclosures.php)

This material is approved for distribution in Ireland by Cantor Fitzgerald Ireland Ltd. It is intended for Irish retail clients only and is not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. Cantor Fitzgerald Ireland Ltd ("CFIL") is regulated by the Central Bank of Ireland. Cantor Fitzgerald Ireland Ltd is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Where CFIL wishes to make this and other Cantor Fitzgerald research available to Retail clients, such information is provided without liability and in accordance with our terms and conditions that are available on the CFIL website.

No report is intended to and does not constitute a personal recommendation or investment advice nor does it provide the sole basis for any evaluation of the securities that may be the subject matter of the report. Specifically, the information contained in this report should not be taken as an offer or solicitation of investment advice, or to encourage the purchase or sale of any particular security. Not all recommendations are necessarily suitable for all investors and CFIL recommends that specific advice should always be sought prior to investment, based on the particular circumstances of the investor either from your CFIL investment adviser or another investment adviser.

CFIL takes all responsibility to ensure that reasonable efforts are made to present accurate information but CFIL gives no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. This is entirely at the risk of the recipient of the report. Nor shall CFIL, its subsidiaries, affiliates or parent company or any of their employees, directors or agents, be liable for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this research note constitute CANTOR IRELAND's judgment as of the date of the note but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this research note has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse effect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only; they are not a reliable guide to the future performance of this investment.

[Conflicts of Interest & Share Ownership Policy](#)

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising from other CANTOR IRELAND business units including Fund Management and Stock broking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, CANTOR IRELAND is satisfied that the objectivity of views and recommendations contained in this note has not been compromised. Nonetheless CANTOR IRELAND is satisfied that the impartiality of research, views and recommendations remains assured.

**Analyst Certification**

Each research analyst responsible for the content of this research note, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research note.



**Dublin:** 75 St. Stephen's Green, Dublin 2. Tel: +353 1 633 3633.

**email :** [ireland@cantor.com](mailto:ireland@cantor.com) **web :** [www.cantorfitzgerald.ie](http://www.cantorfitzgerald.ie)



**Twitter :** @cantorIreland



**LinkedIn :** Cantor Fitzgerald Ireland