

Wednesday, 09th October 2019

Morning Round Up

Brexit takes another turn as deal hopes fade

The probability of a Brexit agreement faded yesterday, as all parties commented the likelihood had diminished with the blame game taking centre stage. Unconfirmed reports of a conversation between German chancellor Angela Merkel and PM Boris Johnson called the chance of a Brexit Deal as "essentially impossible". In addition, the PM had a call with Taoiseach Leo Varadkar yesterday evening with both sides remaining committed to find an agreement. Varadkar commented afterwards he would work to secure a deal but added it looked very unlikely. Looking forward we continue to see the probability of a deal by the end of October as minimal, with the remaining two options of a no-deal or an extension less clear. Given parliament's clear commitment to avoiding a no-deal, we expect an extension to facilitate a UK general election before Christmas. We would expect the political and legal manoeuvring of Number 10 up to the deadline to drive volatility, which will likely to see the pound continue to weaken over the coming weeks. Ultimately, the Brexit issue will be put to the people again with the outcome remaining a 50/50 between a hard exit and a more market friendly solution.

Impeachment enquiry raises tensions in Washington

US President Donald Trump has increased his vocal opposition to House Democrat's impeachment proceedings. The White House has refused to co-operate with the impeachment investigation calling it a constitutional violation. In a letter to the speaker of the House, White House counsel said the process breached the constitution because the US president was being denied his right to call witnesses in his defence and obtain access to transcripts, among other violations. In response to enquiry, President Trump publicly invited both China and the Ukraine to investigate political rival Joe Biden's son, as well as calling the impeachment process a "kangaroo court". Impeachment battles are generally fought and won on public opinion, with President Trump retaining the support of the Republican party at present. As the enquiry progress we would expect the related uncertainty to weigh on markets, adding to the increasing list of headwinds facing the US economy. As such, we continue to advocate clients to increase allocations to defensive assets and reduce risk across portfolios.

Paschal's fourth budget focused on Brexit and Climate change

Yesterday's Irish budget had a few relevant changes for investors to be aware of despite the government's insistence that there were no surprises. Some of the highlights include an increase in the dividend withholding tax to 25% (from 20%) and a modified withholding tax regime from 2021, continued support of Employment and Investment Incentive Schemes with increased incentives, increase in the capital acquisition tax (inheritance relief), help to buy scheme for first time buyers extended until end of 2021, reform of tax for REIT's ensuring appropriate level of tax paid and putting a cap on interest relief permitted, increase in R&D tax credit for small companies, increases in the Brexit kitty for many industries including agri and tourism, increasing of the commercial property stamp duty to 7.5% from 6%, application of 1% stamp duty on Schemes of Arrangement to acquire a company, increase of Carbon tax to €26 per tonne, extension of VRT and BIK relief for hybrid and electric cars and a diesel rebate relief for hauliers. In addition the Bank Levy was increased from 59% of DIRT payments made in 2015 to 170% of DIRT payments made in 2017. The change was introduced to ensure that the Levy continues to yield €150m to the exchequer annually.

The budget has an impact for some investors and listed companies such as homebuilders re HTB scheme, banks re change of bank levy structure, REIT's regarding transaction costs and tax relief on interest structures etc.

Source: Bloomberg, CF Research October 2019

Key Upcoming Events

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

Market View

US markets were weaker yesterday as the outlook for US-China trade relations deteriorated. Comments from the Fed drove a short intraday rally but the day finished with session lows. Asian markets saw trade related weakness continue overnight. Europe has opened positive this morning after a strong sell off yesterday. Trade will continue to drive sentiment ahead of US-China trade talks set to begin in Washington tomorrow. Closer to home, the Brexit outlook also deteriorated as hopes of a deal fade. Sterling posted a strong move lower yesterday, falling to €1.11 against the euro and \$1.22 against the dollar.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26164	-313.98	-1.19%	12.16%
S&P	2893	-45.73	-1.56%	15.41%
Nasdaq	7824	-132.52	-1.67%	17.91%
Nikkei	21456	-131.40	-0.61%	7.20%
Hang Seng	25683	-210.59	-0.81%	-0.63%
Brent Oil	58.13	-0.11	-0.19%	8.05%
WTI Oil	52.54	-0.09	-0.17%	15.70%
Gold	1505	-0.38	-0.03%	17.36%
€/\$	1.0984	0.00	0.25%	-4.21%
€/£	0.8972	0.00	0.07%	-0.19%
£/\$	1.2243	0.00	0.20%	-4.01%
			Yield	Change
German 10 Year			-0.578	0.02
UK 10 Year			0.454	0.04
US 10 Year			1.5391	0.01
Irish 10 Year			-0.025	0.02
Spain 10 Year			0.133	0.01
Italy 10 Year			0.86	0.0140

Source: Bloomberg, CF Research October 2019

GVC Holdings - Positive Momentum continues into Latter Half of 2019

Closing price €0.62

News

GVC Holdings released their Q3 trading update this morning, reporting that net gaming revenue declined by 1% at the group level but that online gaming revenue grew by 12%. Although growth momentum has slowed relative to the first half period, the group is cycling tough comps due to World Cup last year. Management raised guidance by 3% to an EBITDA range of £670m-£680m.

UK's like for like gaming revenue declined by 18% driven by the change in law around FOBT betting limits. This is running ahead of previous expectation. GVC has closed a total of 198 retail shops and targets closing 900 shops over the next two years. European net gaming revenue declined by 4% due to WC comps.

During the period GVC launched BetMGM mobile app in the New Jersey which is the start of their US gaming rollout. Management also successfully refinanced €1.1bn of debt at a lower interest rate.

The appointment of a new Chair should be imminent.

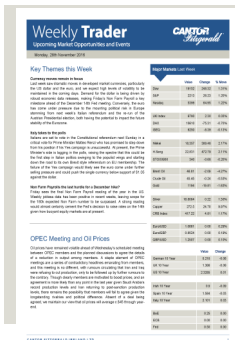
Comment

Another good set of results from GVC which supports our previous buy recommendation. GVC shares are up 3.5% this morning and up c.30% on average since we recommended the name in our weekly trader on a few occasions.

At the current level, GVC trades on 12.7x earnings, 1.3 x book value and offers a 4.5% dividend yield. We continue to see fair value around £9 and note that it now has technical support on its 200dma at £7.40. We are confident that the opening up of US gambling should be new growth driver for these companies and will likely continue to attract investor interest in the months ahead.

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.

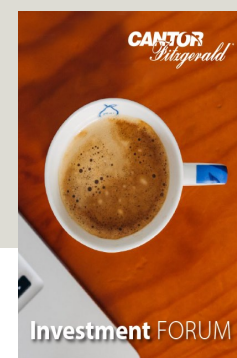
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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

GVC: GVC Holdings is an e-gaming operator in both B2C and B2B markets. The company's line of business includes the provision of internet gaming, sports betting, casino, poker and bingo services.

Historical Recommendation:

GVC: This stock was moved to Outperform on 26 August 2019

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