

Thursday, 10<sup>th</sup> October 2019

## Morning Round Up

### Ryanair price target increase

Following the recent failures of Thomas Cook, Adria Airways, XL Airways and Aigle Azur and [easyJet's update](#) on Tuesday we are increasing our PT on Ryanair from €10.80 to €12.50. The consolidation story that has been at play in the airline sector for the past two years continues to play out. The recent failures (particularly of Thomas Cook) will be supportive of the supply demand dynamics in the sector and subsequently will put upward pressure on airline fares. We expect further airlines failures within the sector this Winter (period of weaker cash flows). This is highly supportive for Ryanair who remain best placed to capitalise on competitors leaving the market. Adding to this is the slowing capacity growth from other major airlines. This has meant capacity growth has fallen to its lowest level in approximately 5 years (<2%) with numerous locations experiencing negative growth. EasyJets results were also important as earnings came in ahead of the midpoint of initial guidance, something that has been rare in the sector for the past year. This was aided by the revision upward in unit revenue for H2 from "slightly down" to +0.8%. Adding to the positive news from Ryanair, industrial relations tensions have eased with recent deals in the UK and Germany. Recent airlines failure have also weakened the pilot and cabin crews hand with a surplus of staff now in the market.

Our price target of €12.50 reflects an increase to our fare assumptions (-3% to -2%) and an increase in EV/EBITDAR multiple back to 8.8x, reflecting the improvement in the sector and our expectation for earnings to inflect this year. Brexit and the Boeing MAX issues remain a significant headwind and clarity is needed over the coming months. We will watch commentary closely from both Ryanair and its competitors at results next month. Should the fare environment continue to improve and should Ryanair's capacity growth (MAX's) uncertainty be clarified we should see earnings accelerate and with this continued gains in the share price. Maintain Outperform rating

### Mondi lower on softer demand

Mondi, a peer of Smurfit Kappa, reported lower EBITDA in Q3 due to softer demand and lower prices. The paper and packaging group saw EBITDA fall 18% on the same quarter last year to €383mln. Management reporting lower average selling prices offsetting the benefits of its ongoing profit improvement initiatives. Like for like (LFL) sales volumes were marginally lower, with weak paper volumes partly offset by stronger corrugated packaging volumes. Pricing across Europe for packaging is showing signs of stabilising, with management seeing prices in Q4 marginally lower but offset by a lower cost base. The read through for Smurfit Kappa is concerning as weaker demand will likely weigh on Smurfit's Q3 numbers after a strong set of H1 numbers.

### LVMH post stronger than expected sales growth

LVMH, the luxury goods giant, saw organic sales growth of 11% (est. 9%) delivering €13.3bn in Q3. The stock opened up 5.5% on the release as revenues have remained robust in the face of global trade tensions and political unrest in Hong Kong. The group's core Fashion & Leather segment delivered 18% organic growth as well as reporting strong demand from China. The outlook statement was cautious noting the difficult geopolitical environment but emphasised management's targeted geographical expansion and the group's strong brand recognition supporting revenue growth. Names across the luxury sector have been spurred higher by LVMH's results.

Source: Bloomberg, CF Research October 2019

## Key Upcoming Events

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

## Market View

US markets recovered after a three day losing streak, on a upbeat outlook for trade talks. Asian trading was mixed overnight, with Japan posting a strong recovery intraday and China's indices posting gains. Europe has opened lower this morning with investors taking a wait and see approach. The trade outlook remains volatile as both sides give and take. Latest reports expect the US to concede ground on Huawei but crackdown on contraband goods, while the Chinese side have indicated they can increase purchases of US agricultural products but have cut short today's talks. On the data front, we have a range of data on the UK economy including Construction Output,

## Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26346	181.97	0.70%	12.94%
S&P	2919	26.34	0.91%	16.46%
Nasdaq	7904	79.97	1.02%	19.12%

Nikkei	21552	95.60	0.45%	7.68%
Hang Seng	25701	18.03	0.07%	-0.56%

Brent Oil	57.98	-0.34	-0.58%	7.77%
WTI Oil	52.31	-0.28	-0.53%	15.19%
Gold	1509	3.56	0.24%	17.67%

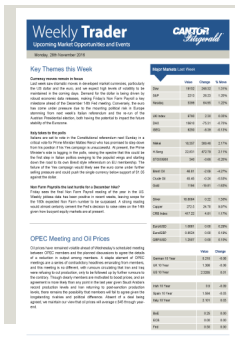
€/\$	1.1015	0.0044	0.40%	-3.94%
€/£	0.8997	0.0008	0.09%	0.09%
£/\$	1.2243	0.0037	0.30%	-4.01%

	Yield	Change
German 10 Year	-0.541	0.007
UK 10 Year	0.475	0.015
US 10 Year	1.577	-0.007

Irish 10 Year	0.02	0.013
Spain 10 Year	0.16	0.010
Italy 10 Year	0.891	0.022

Source: Bloomberg, CF Research October 2019

# 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.

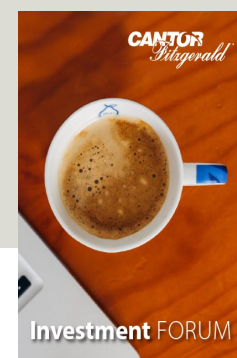
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