

Friday, 11th October 2019

Morning Round Up

Tullow Oil looks to have upside post the correction

Tullow Oil has traded back to sub £2.05 this morning, having peaked around £2.50 in September due to the Saudi production outage. We used that strength to reduce our recommendation. The correction we have seen now implies that there is c.15% upside to our fair value currently which is also under review dependent on the outcome of ongoing drilling in Guyana. To date, Guyana drilling has been positive. Q3 sales results is on the 13th November which could be a catalyst. An interim trade deal between US/China would likely see crude rally. We think below £2.05, the risk return is better for a trade up in Tullow into results. The CEO of Eco Atlantic, which has a stake in Tullow's Guyana project, has been buying shares in that company which we think implies optimism on the Guyana oil field both Eco Atlantic and Tullow are involved in together.

Hugo Boss lowers outlook on HK protests

Hugo Boss cut its FY outlook from c.5-6% sales growth to 1-3% sales growth and now expects a modest decline in profits having previously expected profits to increase YoY. Management comment that the protests in HK have had a substantial impact as well as a deterioration in the North American market environment. While the downgrade is disappointing, we are of the view that the 18% fall in BOSS share price over the last year, prior to today's move, adequately priced in the softening earnings trends. Hugo Boss balance sheet sits with net cash and its shares offer a 7% dividend yield. The sell off looks over done.

NI only backstop possibly back in play. Irish stocks gain on optimism

Sterling strengthened by 1.6% over the last 24 hours on optimism that a Brexit Deal can be reached. Leo has kept the details light until Stephen Barclay meets the EU chief Brexit negotiator Barnier later today. Some speculation is a reversion to a NI only backstop (customs border down the Irish sea) with a double majority required in NI Assembly to leave the backstop and join the UK customs union. By doing so, the DUP get their way with a sort of time limit on the backstop but requiring double majority (strong) support to exit the backstop. Given that most people in Northern Ireland voted to remain in the EU, the desire to leave the backstop would be very unlikely unless Northern Ireland's economy felt significant long term pain – a risk that an all Island economy, access to the UK market and ongoing support from the EU would be mitigated by. Hence the NI only backstop maybe back in play greatly reducing the risk of a no-deal crash out and positive for Irish Inc.

GBPEUR one year chart



Source: Bloomberg, CF Research October 2019

Key Upcoming Events

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

Market View

European shares have opened strongly this morning after positive tones on both the trade and Brexit fronts. Donald Trump said the talks with the Chinese delegation went "really well" and will continue on later today. Adding further to this was the positive comments from both Leo Varadkar and Boris Johnson who see a "pathway" to a Brexit deal. Both cyclical equities and Irish equities specifically are rallying on the news this morning. Energy (aided by the stronger oil price), Financials, Materials and Industrials are the outperforming sectors. Of the Irish names, AIB, Dalata Hotel Group, Glenveagh and Irish Continental Group have all risen by over 5% this morning.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	26497	150.66	0.57%	13.59%
S&P	2938	18.73	0.64%	17.20%
Nasdaq	7951	47.04	0.60%	19.83%
Nikkei	21799	246.89	1.15%	8.91%
Hang Seng	26308	600.51	2.34%	1.79%
Brent Oil	60.59	1.49	2.52%	12.62%
WTI Oil	54.53	0.98	1.83%	20.08%
Gold	1499	4.75	0.32%	16.86%
€/\$	1.1009	0.00	0.04%	-3.99%
€/£	0.8823	0.00	-0.26%	-1.85%
£/\$	1.2478	0.00	0.28%	-2.16%

	Yield	Change
German 10 Year	-0.484	-0.02
UK 10 Year	0.609	0.02
US 10 Year	1.6578	-0.01
Irish 10 Year	0.013	-0.07
Spain 10 Year	0.202	-0.03
Italy 10 Year	0.94	-0.0160

Source: Bloomberg, CF Research October 2019

SAP - Pre announced Q3 results sees the stock open higher

Closing price €1.05

News

SAP pre-announced Q3 results yesterday afternoon. Q3 delivered a strong set of results as well as a change at the helm with CEO Bill McDermott stepping down. SAP delivered 13% revenue growth in Q3, with revenues reaching €6.81bn. Within revenue, Cloud revenue delivered 37% growth as the business pivots towards cloud applications. The Software Licencing and Support generated 4% growth. Non-IFRS operating margin saw strong expansion to 30.6% from 28.9%, seeing operating profit grow to \$2.09bn.

Some of the business highlights in Q3 included new cloud bookings posting strong growth on a deal with a major partner in the segment delivering 17% of a total 38% growth. The deal has a 3 year term. The cloud business also saw strong margin expansion with gross margin of 64.5%, up 5.9%. SAP's enterprise resource planning (ERP) database product, S/4HANA added 500 customers in the quarter growing to more than 12,000 customers. Licencing revenues fell yoy by 1% as the business pivots towards cloud based applications, while the share of predictable revenue grew by 2% to 69% again reflecting the changes in management's strategy.

Looking at guidance management reiterated targets for FY19, FY20 and FY2023. FY19 include target growth in cloud revenue between 33%-39%, total revenue up 8.5%-10% and operating profit up 9.5%-12.5%. Longer term goals included tripling cloud revenues, pushing gross margin to 75% and grow operating margin by 1% a year.

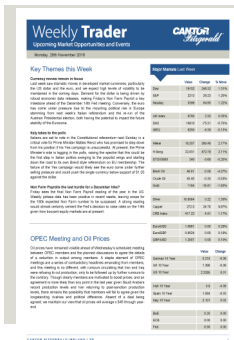
The release also included confirmation that CEO Bill McDermott will step down as CEO with two SAP veterans taking the reins as co-CEOs. Mr McDermott will remain in the business until yearend in an advisory capacity. The two new CEOs have strong experience across the business. Jennifer Morgan, who joined the business in 2004, most recently served as President of the Cloud Business Group and Christian Klein joined the business as a student, most recently serving as the group's chief operating officer.

Comment

Yesterday evening's news saw the company open up 8% this morning after a weak spell of share price performance following softer numbers in Q2. The return to strong growth figures, reemphasis of both short and longer-term guidance and the execution of a smooth leadership transition all see SAP well placed to continue to lead the European technology space. SAP offers shareholders a strong combination of robust top line growth and continuing improving profitability driving earnings growth all on the back of strong structural tailwind of cloud based applications. We believe managements ambitious longer term guidance is deliverable and that current valuations do not full reflect the growth prospects of the business. Valuations are currently running at 21x forward earnings, which is marginally ahead of its 5 year average, but well behind some of its US peers. We retain an outperform rating on SAP and advise clients to add to positions, as we expect the stock to deliver value over a longer investment horizon. For client's with a shorter investment horizon we would advise opening positions at €110.

Pierce Byrne, CFA | Investment Analyst

Cantor Publications & Resources



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Regulatory Information

Issuer Descriptions: (Source: Bloomberg)

SAP: SAP is a software corporation that makes enterprise software

Historical Recommendation:

SAP: SAP is a member of our core portfolio and we have an Outperform rating on the stock since 20/07/2017

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