

# Weekly Trader

Upcoming Market Opportunities and Events

**CANTOR**  
*Fitzgerald*

Monday, 16<sup>th</sup> March 2020

## Key Themes This Week

### The Week Ahead

- BOE 50 bps rate cut and fiscal stimulus
- PBOC cut interest rates and reserve ratio requirement
- Fed injects \$1.5tn liquidity with more likely
- ECB disappoint - running out of ammunition
- ECB calls for EU fiscal spend
- Countries close borders and suspend sport and schools
- As many Covid-19 cases outside of China as there are in China
- Probability of recession over 50%
- Biggest drop on record on Thursday, followed by a surge on Friday
- Trump to fill up oil reserve
- Key level on S&P is 2480-2560
- MIM went from c.70% to c.77% in equities

So long as c.2,500 holds on the S&P 500, we retain the view that investors expect Europe/US equity markets to follow similar course as Chinese and rally hard after the sell off. Expectations are that developed economies will not be dissimilar to China and gradually return to full output through June/July and that second half recovery will be strong. We see a V shaped recession as our base case, we are happy to move neutral to overweight risk given the stimulus being thrown at it (over \$1.5tn in US, £30bn fiscal spend by UK, BOE/FED rate cuts etc) and recommend investors who can have appetite for risk to consider large liquid names which can be sold into strength.

In this trader we review US Big Tech (Structural growth), Hibernia REIT, Irish Industrials and Newmont (Gold). Having been cautious on Irish Equities for six months with reduce ratings on CRH, Kingspan, Ryanair, Kerry Group and UDG Healthcare among others - value is starting to emerge. We reduced Irish Equities to underweight in the Core in January.

## Major Markets Last Week

	Value	Change	% Move
Dow	23186	-2679	-10.36%
S&P	2711	-261	-8.78%
Nasdaq	7875	-701	-8.17%

MSCI UK	12034	-2459	-16.97%
DAX	9232	-2310	-20.01%
ISEQ	5148	-1118	-17.84%

Nikkei	17431	-3319	-16.00%
H.Seng	24033	-2114	-8.09%
STOXX600	299	-68	-18.53%

Brent Oil	33.85	-11.42	-25.22%
Crude Oil	31.73	-9.55	-23.13%
Gold	1522	-142	-8.53%

Silver	14.50	-2.76	-16.00%
Copper	247.40	-9.90	—

Euro/USD	1.1100	-0.031	-2.72%
Euro/GBP	0.90.0	0.033	3.82%
GBP/USD	1.2342	-0.065	-4.99%

	Value	Change
German 10 Year	-0.61	0.10
UK 10 Year	0.40	0.17
US 10 Year	0.94	0.22

Irish 10 Year	0.15	0.36
Spain 10 Year	0.59	0.39
Italy 10 Year	1.83	0.53

BoE	0.25	-0.50
ECB	0.00	0.00
Fed	0.125	-1.00

All data sourced from Bloomberg

## Opportunities this week

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### US Big Tech/Cloud Service (MSFT/AMZN/GOOGL)

#### Microsoft:

- 1.1tn market cap, corrected by 24% from recent high and now trades on c.25x 2020 earnings. Q2 results in January recorded 14% revenue growth and 35% growth in operating income
- Management adjusted guidance for Covid-19 due to supply chain issues within PC division– c.5% earnings downgrade. Azure grew revenue by 62% in Q2, LinkedIn by 24% and cloud services by 16%. Consensus guides for 10% revenue CAGR and 15% EPS CAGR through 2025

#### Amazon:

- Corrected by 18% from its high, which can be rare for growth stocks
  - Global online retail leader with online retail sales still less than 15% of total retail sales. Amazon reported 2019 net sales growth of 20% to \$280bn and 25% growth in operating cash flow
  - AWS (cloud services) and Amazon Prime key drivers of future growth
- Technical support on the chart around \$1700-\$1750. Recent low of \$1660 is a good stop loss

#### Alphabet:

- Google's parent has corrected by c.19% off its high and trades now on c.22x forward earnings. \$1200 is a big level on the chart which could be considered a stop loss
- Investments extend across computer science, artificial intelligence, ambient computing and cloud computing which provide a strong base for continued growth and new opportunities across Alphabet Youtube and Cloud now generate \$15bn and \$10bn in sales - key growth streams
- Alphabet delivered 20% revenue growth in 2020 and c.12% growth in earnings per share

### Hibernia REIT (HRBN ID)

Closing Price: €0.98

- Hibernia REIT is Ireland's largest listed commercial property landlord after Green REIT was acquired by Henderson Park in August 2019. Hibernia REIT has a €1.4bn portfolio of assets which is valued off a 4.5% gross rental yield and is 80% office space spread across Dublin's CBD (IFSC, South Docks and South City Centre), 15% residential and 150 acres of mixed use land bank out the Naas road.
- Hibernia REIT's most recent trading update confirmed c.€230m in net debt, c.20% LTV and average maturity of debt is 4.8 years. They completed a €25m buyback at €1.42 and signaled more possible,
- Their portfolio has a contracted rent roll of €65m, an c.8% vacancy rate (post the recent lease agreement with Zalando at 2WML) and c.€5m of un-let space ERV.
- Hibernia REIT shares had already priced in much negative sentiment after management signaled an easing of leasing demand at recent trading update and SF campaigned for a 12.5% commercial stamp duty.
- With FF/FG more likely to form the next government and with Hibernia shares trading right back at its IPO price (5 year low) this morning we upgrade their shares to a "Buy" with this note.
- Hibernia REIT trades with an Enterprise value of €900m and a contracted rent to EV of 7.2%. They also trade at 25% discount to our conservative book value (€1.2bn/€1.40 NAV per share) and 43% discount to EPRA NAV of €1.75 per share. They now offer a c.4% forward dividend yield. Green REIT was acquired at a premium to book value and at 5.3% contracted rent to EV.

## Opportunities this week

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### Irish Industrials (CRH/SKG/KSP)

- **CRH shares have declined by 33% year to date. Already pricing in a very weak H1 2020**
- FY 2019 results solid with cash flow generation a standout. €4.2bn EBITDA and net debt/EBITDA was 1.7x at FY 2019
- Group operating cash flow surged by 50% benefiting from the integration of Ashgrove in the States
- CRH trades on 9.5x trailing earnings and 1.15x book value. Should benefit from US stimulus measures. Upgrade to Buy
- **SKG is a global leader in corrugated boxes which is seeing structural demand growth driven by e-commerce**
- Shares have declined by 33% YTD and trade 40% below IP offer (€39) from 2018 yet company much bigger
- SKG trades on 9x trailing earnings and offers a 4.5% dividend yield backed by an c.8% free cash flow yield
- FY 2019 group reported €9.05bn revenue, €1.65bn in EBITDA (+7% YoY) and generated €550m of free cash flow (€3.5bn net debt)
- 80% of SKG profits (EBITDA) is European based - hence the selloff in shares year to date. Medium to long term, we see good value at these levels
- **Kingspan is a global leader in high performance insulation and energy efficiency products**
- Shares have declined by 26% year to date to trade on 22x trailing earnings (3.8% fcf yield)
- Strong balance sheet with 1.1x net debt/EBITDA (€630m net debt)
- Good track record of revenue and earnings growth but more downside if European construction sector gets significantly hit. €44 - €45 is a key level on the chart. **In order of preference, we now like CRH, Smurfit Kappa and Kingspan (KSP still not cheap)**

### Newmont (NEM)

Closing Price: \$39.60

- Newmont is the world's largest gold producer with 100m in global gold reserves
- Gold has outperformed equities significantly in this sell off and continues to make sense to hold some exposure to the theme
- Newmont reported that they produced 6.3m oz of gold in 2019, delivered \$9.7bn of revenue (+34% YoY), \$3.7bn of EBITDA (+45% YoY) and \$1.4bn of free cash flow
- All in gold cash cost was \$966 and guided to fall below \$900 over the next two years as synergies are extracted from the Goldcorp merger. Synergy projections have been raised to \$500m, having initially targeted \$350m.
- With a relatively strong balance sheet (1.2x net debt to EBITDA, net debt of \$4.6bn), management have committed to a \$1bn buyback and raised the dividend to \$1 per share

Newmont trades on 11.7x trailing EV/EBITDA and when you consider that management guide that every 1000 shares have exposure to 124oz of gold, you could estimate that 1000 shares are worth 124 x (\$1600(Spot) - \$966 (AISC)) = \$78,000. Adjusting for c.20% tax rate, you could assume each share is worth.

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**Alphabet:** Alphabet provides web-based search, advertisement, maps, software applications, mobile operating systems, consumer content and other software services.

**Amazon:** Amazon is an online retailer that offers a wide range of products.

**Dalata Hotel Group:** Dalata Hotel Group owns and operates as a chain of hotels.

**Danone:** Danone operates as a food processing company.

**DCC:** DCC is a sales, marketing, distribution and business support services company.

**Glanbia:** Glanbia plc is an international dairy, consumer foods, and nutritional products company. The Company conducts operations primarily in Ireland, the United Kingdom, and the United States

**Microsoft:** Microsoft Corporation develops, manufactures, licenses, sells, and supports software products.

**PayPal:** PayPal operates a technology platform that enables digital and mobile payments on behalf of customers and merchants

**Pfizer:** Pfizer Inc. operates as a pharmaceutical company. The Company offers medicines, vaccines, medical devices, and consumer healthcare products for oncology, inflammation, cardiovascular, and other therapeutic areas

**Royal Dutch Shell:** Royal Dutch Shell explores, produces, and refines petroleum

**SAP:** SAP is a software corporation that makes enterprise software

**Smurfit Kappa:** Smurfit Kappa manufactures paper packaging products

**Verizon:** Verizon Communications Inc. is an integrated telecommunications company that provides wire line voice and data services, wireless services, internet services, and published directory information.

**VINCI SA:** VINCI is a global player in concessions and construction with expertise in building, civil, hydraulic, and electrical engineering

**Total:** TOTAL S.A. explores for, produces, refines, transports, and markets oil and natural gas. The Company also operates a chemical division which produces polypropylene, polyethylene, polystyrene, rubber, paint, ink, adhesives, and resins.

**Newmont Goldcorp:** Newmont acquires, explores, and develops mineral properties.

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**Sanofi:** Sanofi operates as a pharmaceutical company. The Company manufactures prescription pharmaceuticals and vaccines. Sanofi also develops cardiovascular, thrombosis, metabolic disorder, central nervous system, and oncology medicines and drugs.

**Engie:** Engie is a global energy and services utility company

**FedEx:** FedEx delivers packages and freight to multiple countries and territories through an integrated global network

**Kennedy Wilson:** Kennedy-Wilson Holdings, Inc. operates as a global real estate investment company

**ING Groep:** ING Groep is a global financial institution providing retail and wholesale financial services.

**BT Group:** BT Group is a UK based telecommunications company.

**Carnival:** Carnival operates and owns cruise ships

**Siemens Gamesa:** SGRE designs and manufactures renewables energy equipment

**Historical Recommendation:**

None of the above recommendations have been disclosed to the relevant issuer prior to dissemination of this Research.

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