

# Weekly Trader

## Upcoming Market Opportunities and Events

**CANTOR**  
*Fitzgerald*

Monday, 10<sup>th</sup> August 2020

### Key Themes This Week

#### The Week Ahead

Equity markets rallied on average by 2.5% last week as a series of better economic data as well as strong performances by the US big tech names helped off-set on-going uncertainties such as delayed US stimulus talks and increased US-Chinese tensions. Market sentiment was also given a boost by a moderation in virus cases in some US states however the resurgence of the virus in other parts of the world warrants close attention.

During the week, the initial first readings of regional PMI data was confirmed in the final readings with the readings for both Europe and the US actually improving. Also on the economic front better than expected US jobs data in the form of Weekly Jobless Claims and last Friday's Non-farm Payroll number also boosted market sentiment. While welcoming these better data points we would caution that a large portion of last week's data points covered the period before the re-emergence of the virus in a number of European countries as well as before the increased pace of renewed lockdowns in a number of economically important US states such as California, Texas and Florida.

Against these better than expected economic numbers it is worth highlighting that a number of hard data points monitored by the New York Fed and other economic agencies suggest that the underlying trend for US growth is weaker than the headline numbers suggest. For example foot-fall in retail outlets and shopping malls has declined significantly in recent weeks as has restaurant bookings, hotel bookings, flight reservations and cross-state use of credit and debit cards. These areas of hard data weakness highlight how critical it is the House Republicans and Democrats agree a new stimulus package to replace the last package that expire last Friday-week.

As we have highlighted on a number of occasions previously, we remain concerned about the potential for a serious escalation in US-China tensions, and these concerns were increased further last week after President Trump passed executive orders targeting Chinese apps TikTok and WeChat. The timing of this move is significant as it comes just ahead of next week's meeting of trade representatives from both countries to review the compliance by China to the terms of the Phase 1 Trade Deal. With tensions already strained over issues such as Hong Kong and US accusations against China over the source of the coronavirus, the meeting next week has the potential to further diminish relationships further. Equally, the Chinese response to the move against TikTok and We Chat could result in a technology war with companies such as Apple and Microsoft seen as potential targets for any retaliation.

This week we include comment on **Smurfit Kappa Group** following the company's recent impressive results along with **Kerry Group** which once again recently demonstrated its ability to delivery consistent results in the current challenging environment. We also include a comment on the **iShares MSCI World Value ETF** which provides exposure to the leading value sectors and companies which have underperformed in recent months but have the potential to recover strongly over the coming months.

### Major Markets Last Week

	Value	Change	% Move
Dow	27,433	1005.16	3.80%
S&P	3,351	80.16	2.45%
Nasdaq	11,011	265.71	2.47%

MSCI UK	13,455	-5.46	-0.04%
DAX	12,675	361.52	2.94%
ISEQ	6,278	57.29	0.92%

Nikkei	22,330	619.94	2.86%
Hang Seng	24,479	21.11	0.09%
STOXX 600	364	7.22	2.03%

Brent Oil	44.79	0.64	1.45%
Crude Oil	41.71	0.70	1.71%
Gold	2034	56.68	2.87%

Silver	28.55	4.25	17.50%
Copper	282.5	-8.70	-2.99%

Euro/USD	1.1784	0.00	0.19%
Euro/GBP	0.9025	0.00	0.32%
GBP/USD	1.3058	0.00	-0.13%

	Value	Change
German 10 Year	-0.50%	0.02
UK 10 Year	0.14%	0.04
US 10 Year	0.57%	0.01

Irish 10 Year	-0.14%	-0.01
Spain 10 Year	0.28%	-0.06
Italy 10 Year	0.93%	-0.08

BoE	0.1	0.00
ECB	0.00	0.00
Fed	0.25	0.00

All data sourced from Bloomberg

## Opportunities this week

CFI Research Team

### Smurfit Kappa Group Plc

Closing Price: €29.74



Key Metrics	2020e	2021e	2022e
Revenue (€'Mn)	8471.7	8744.2	9073.8
EPS (€)	2.17	2.45	2.78
Price/ Earnings	13.81x	12.22x	10.76x
Div Yield	3.53%	3.64%	3.72%

Total Return	1 Mth	3 Mth	YTD
SKG ID	5.69%	3.55%	-13.19%

Source: All data & charts from Bloomberg & CFI

Management would now appear to have much greater visibility on business progression through the pandemic than it did in April 2020. This was evidenced by the re-instatement of its dividend, which returned yield to the Smurfit Kappa investment case. At current prices, it is an attractive 3.6%. The return of the dividend reinforces our view that the company is continuing to generate solid cash flow (free cash flow of €238m in H120) and subsequently has a strong balance sheet (net debt/EBITDA at 2.1x versus 2.2x at H119), despite the impact of the pandemic. This was further illustrated when management ticked up its full year capex guidance.

We believe that both a global footprint and diversified product line spreads the risk of exposure to most downturns. As one of the largest integrated manufacturers of paper-based packaging solutions in the world, Smurfit Kappa currently operates in 23 European countries and 12 countries in the Americas. The company produces the largest volume of corrugated packaging and containerboard in Europe and is the only large-scale pan-regional player in the Americas. Over three quarters of its revenue (78%) and 76% of its EBITDA is generated in Europe, with the remainder coming from the Americas.

In volume terms, corrugated production accounts for 43.5% of output (33.3% Europe, 10.2% the Americas) with European recycled containerboard accounting for a further 25.4% and the Americas containerboard production a further 9.4%.

Smurfit Kappa is currently trading at 13.6x FY20E P/E and 7.2x EV/EBITDA, an average 13.8% discount to its peers. Over the past 10 years, Smurfit Kappa has traditionally traded at an average 22.2% discount to its peers. While this might have been justified when the company was focused on reducing its debt levels, we believe such a discount to the sector is now unwarranted.

### Kerry Group Plc

Closing Price: €106.90



Key Metrics	2020e	2021e	2022e
Revenue (€'Mn)	6984.3	7320.9	7643.9
EPS (€)	3.51	4.03	4.40
Price/ Earnings	30.05x	26.22x	24.02x
Div Yield	0.77%	0.87%	0.95%

Total Return	1 Mth	3 Mth	YTD
KYG ID	-1.29%	6.37%	-3.27%

Source: All data & charts from Bloomberg & CFI

Kerry reported a solid set of interim numbers at the end of July. While the impact of the pandemic saw profits lower than the same period last year, they were ahead of market expectations. Importantly, the company maintained its dividend policy, confirming an interim dividend of 25.9c a share, in line with market expectations. The company saw a significant COVID-19-driven impact in Q220, mainly in the Taste and Nutrition division (88% of H120 trading profit) in general and the foodservice channel in particular. T&N reported a 6.0% decrease in profit from a 4.0% dip in revenue, driven by volume contraction in the Americas (down 3.9%) and Europe (down 8.8%).

The Consumer Foods division (12% of H120 trading profit) was not immune to the pandemic, reporting a 6.0% fall in operating profit from a 6.2% contraction in revenue. However, the key focus in this division is on unconfirmed press reports that Kerry will spin off its primary dairy business in Ireland into a JV with Kerry Co-Op, retaining a minority 40% stake. Kerry is understood to have valued the business at €1bn, implying that, at a maximum, the Co-Op would have to pay €600m for its stake. It is speculated that the Co-Op would then partially fund the acquisition of its JV stake through the sale of some of its 12.7% shareholding in Kerry Group, currently valued at €2.4bn.

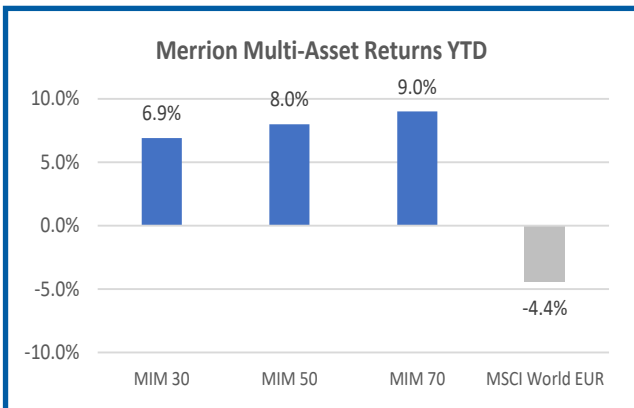
We would view such a move as beneficial for Kerry. At a maximum, the Co-Op would only have to sell c5.7m shares, c.3% of the outstanding number, which should easily be absorbed by the market. The sale would release cash to Kerry, giving it more firepower to make acquisitions in its higher margin Taste and Nutrition division.

Kerry is currently trading at 30.1x FY20E P/E and 20.5x E/EBITDA, reflecting the general sector multiple expansion over the last ten years. The stock is currently trading at an average 16.5% discount to its European peers, a discount we believe unjustified.

## Opportunities this week

CFI Research Team

### Merrion Investment Managers Multi Asset Range (30/50/70)



Total Return	YTD
MIM 30	6.9%
MIM 50	8.0%
MIM 70	9.0%
MSCI World (EUR)	-4.4%

Returns as of the 06/08/2020  
Gross Returns

- MIM multi asset (30/50/70) funds offer well-diversified exposure with the ability to perform in different market environments. Year to date the funds have outperformed peers and benchmarks during both strong and weak market episodes
- Excellent choice across the range, to suit the different risk profiles of our client base
- Diversification with active management can deliver very strong returns with reduced volatility in times of market stress
- The funds entered August towards the lower end of their asset allocation ranges as the teams short term risk indicators are still suggesting caution in the near term
- The team continue to have a very positive outlook for equities over the medium term as a zero rate world and co-ordinated global fiscal expansion will drive investment into the industries that will dominate the next decade
- However, after such a strong rally coupled with the murkier short-term outlook that the surge in virus cases brings, the conditions exist for a volatile summer which will provide better opportunities to exploit the teams more medium term view
- The continued benefit of MIM's active approach, driven by a strong, coherent, and well-tested investment process should be evident over the course the 3rd and 4th quarter of this year

### iShares Edge MSCI World Value Factor UCITS ETF

Closing Price: €26.93



- The ETF seeks to track the performance of an index composed of a sub-set of MSCI World stocks that capture undervalued stocks relative to their fundamentals
- The MSCI World Enhanced Value Index captures large and mid-cap stocks across 23 Developed Markets
- Broad based exposure to a basket of 397 global stocks
- The value investment style characteristics applied in the construction of the index are defined using three variables:
  - Price-to-Book Value
  - Price-to-Forward Earnings
  - Enterprise Value to-Cash flow from Operations
- Top 5 holdings: Intel Corp, AT&T, IBM Corp, Micron Technology, Toyota Motor Corp
- The ETF is available in a accumulating or distributing share class
- Link to [Factsheet](#)
- Link to [KIID](#)

Total Return	1 Mth	3 Mth	YTD
IWVL LN			

Ticker	Yield	TER
IWVL LN	0.00%	0.30%

Source: All data & charts from Bloomberg & CFI

# Cantor Core Portfolio - In Detail

Performance YTD	%	Sector	Portfolio	Benchmark	+ / -	FX	Portfolio	Benchmark
Portfolio	-3.5%	Consumer Discretionary	12%	10%		EUR	43%	32%
Benchmark	-6.4%	Consumer Staples	7%	11%		GBP	15%	15%
Relative Performance	2.9%	Energy	3%	5%		USD	42%	40%
P/E Ratio	22.23x	Financials	8%	16%		Other	0%	14%
Dividend Yield	2.3%	Health Care	8%	14%				
ESMA Rating	6	Industrials	14%	12%				
Beta	1.00	Information Technology	11%	13%				
		Communication Services	12%	7%				
		Utilities	9%	4%				
		Materials	9%	6%				
		Real Estate	4%	2%				
		Emerging Markets	3%	0%				

Currency YTD %		
GBP	-6.39%	
USD	-5.42%	

**Benchmark**

**Weighted Average Contribution**

Index	Currency	PE	Outlook	Weighting	Total Return Local	Weekly Return	Price	Total Contribution
STOXX Europe 600	EUR	17	Neutral	60%	-10.7%	2.1%	364	-6.4%
S&P 500	USD	20	Neutral	40%	4.9%	2.5%	3351	0.0%
<b>Total</b>				<b>100%</b>				<b>-6.40%</b>

**Core Portfolio**

**Weighted Average Contribution**

Stock	Currency	Yield*	Hold /Sold	Sector	Weighting	Total Return Local	Weekly Return	Price	Total Contribution
Alphabet Inc	USD	0.0%	H	Communication Services	2%	11.9%	0.7%	1498	0.1%
Verizon Communications Inc	USD	4.2%	H	Communication Services	5%	-1.5%	1.8%	58.53	-0.3%
BT Group*	GBP	0.6%	H	Communication Services	5%	-45.0%	7.3%	1.06	-2.4%
Dalata Hotel Group Plc	EUR	0.0%	H	Consumer Discretionary	2%	-51.5%	-4.0%	2.50	-1.0%
Amazon.Com Inc	USD	0.0%	H	Consumer Discretionary	4%	71.4%	0.1%	3167	2.5%
McDonald'S Corp	USD	2.5%	H	Consumer Discretionary	3%	4.9%	5.3%	204.60	0.0%
Carnival	USD	0.0%	H	Consumer Discretionary	3%	-71.7%	2.4%	14.22	-2.2%
Glanbia Plc	EUR	2.8%	H	Consumer Staples	4%	-2.7%	-4.5%	9.81	-0.1%
Danone	EUR	3.7%	H	Consumer Staples	3%	-23.6%	-3.5%	54.58	-0.7%
Royal Dutch Shell Plc*	GBP	5.0%	H	Energy	3%	-48.6%	3.3%	11.17	-1.8%
<b>Total Sa</b>	EUR	7.7%	S	Energy	0%	-29.7%	4.8%	32.80	-0.2%
Allianz Se	EUR	5.4%	H	Financials	4%	-13.7%	0.9%	177.72	-0.5%
ING Groep Nv	EUR	5.3%	H	Financials	4%	-38.2%	12.0%	6.61	-1.5%
Sanofi	EUR	3.6%	H	Health Care	3%	1.0%	-1.3%	87.38	0.0%
Pfizer Inc	USD	3.9%	H	Health Care	5%	1.1%	-0.1%	38.45	-0.2%
Vinci Sa	EUR	1.8%	H	Industrials	4%	-19.6%	7.8%	78.46	-0.8%
Siemens Gamesa Renewable Energy	EUR	0.1%	H	Industrials	3%	32.5%	3.9%	20.66	1.0%
DCC Plc	GBP	2.1%	H	Industrials	4%	8.1%	2.1%	69.74	0.1%
Fedex Corp	USD	1.4%	H	Industrials	3%	22.6%	9.0%	183.53	0.5%
SAP Se	EUR	1.2%	H	Information Technology	4%	15.7%	2.6%	137.22	0.6%
Paypal Holdings Inc	USD	0.0%	H	Information Technology	4%	83.6%	1.3%	198.63	3.0%
Microsoft Corp	USD	1.0%	H	Information Technology	3%	35.5%	3.6%	212.48	0.9%
Smurfit Kappa Group Plc	EUR	3.5%	H	Materials	3%	-13.2%	4.5%	29.74	-0.4%
Newmont Corp	USD	1.4%	H	Materials	3%	59.7%	-0.4%	68.91	1.6%
Invesco Physical Gold ETC	USD	0.0%	H	Materials	3%	33.3%	2.8%	196.87	0.6%
Kennedy Wilson Holdings Inc	USD	6.0%	H	Real Estate	4%	-31.9%	-0.7%	14.73	-1.4%
Engie	EUR	0.0%	H	Utilities	5%	-19.3%	3.0%	11.63	-1.0%
Greencoat Renewables Plc	EUR	5.0%	H	Utilities	4%	7.8%	0.8%	1.23	0.3%
JPMorgan Emerging Markets Trust	GBP	1.8%	H	Emerging Markets	3%	0.1%	1.7%	10.58	-0.2%
<b>Total</b>					<b>100%</b>				<b>-3.52%</b>

All data taken from Bloomberg up until 07/08/2020.

**Warning : Past performance is not a reliable guide to future performance**

**Warning : The value of your investment may go down as well as up.**

\*Red Denotes Deletions

\*Green Denotes Additions

\*Yields are based on the mean of analyst forecast

## This Weeks Market Events

<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>
<b>Corporate</b>	<b>Corporate</b>	<b>Corporate</b>	<b>Corporate</b>	<b>Corporate</b>
Prudential PLC Marriott International	Vestas Wind Systems InterContinental Hotels	Glanbia PLC Cisco Systems Inc	TUI AG	
<b>Economic</b>	<b>Economic</b>	<b>Economic</b>	<b>Economic</b>	<b>Economic</b>
EU Sentix Index	UK Unemployment UK Average Weekly Earnings German ZEW Economic Sentiment US PPI US NFIB Business Optimism	UK Industrial Output EU Industrial Production US CPI US Federal Budget	French Unemployment Irish New Dwelling Completions US Initial Jobless Claims	Chinese Industrial Output EU Flash Employment US Retail Sales US Industrial Production US Prelim. Michigan Consumer Sentiment

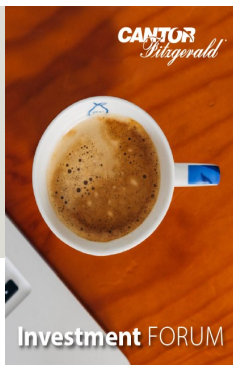
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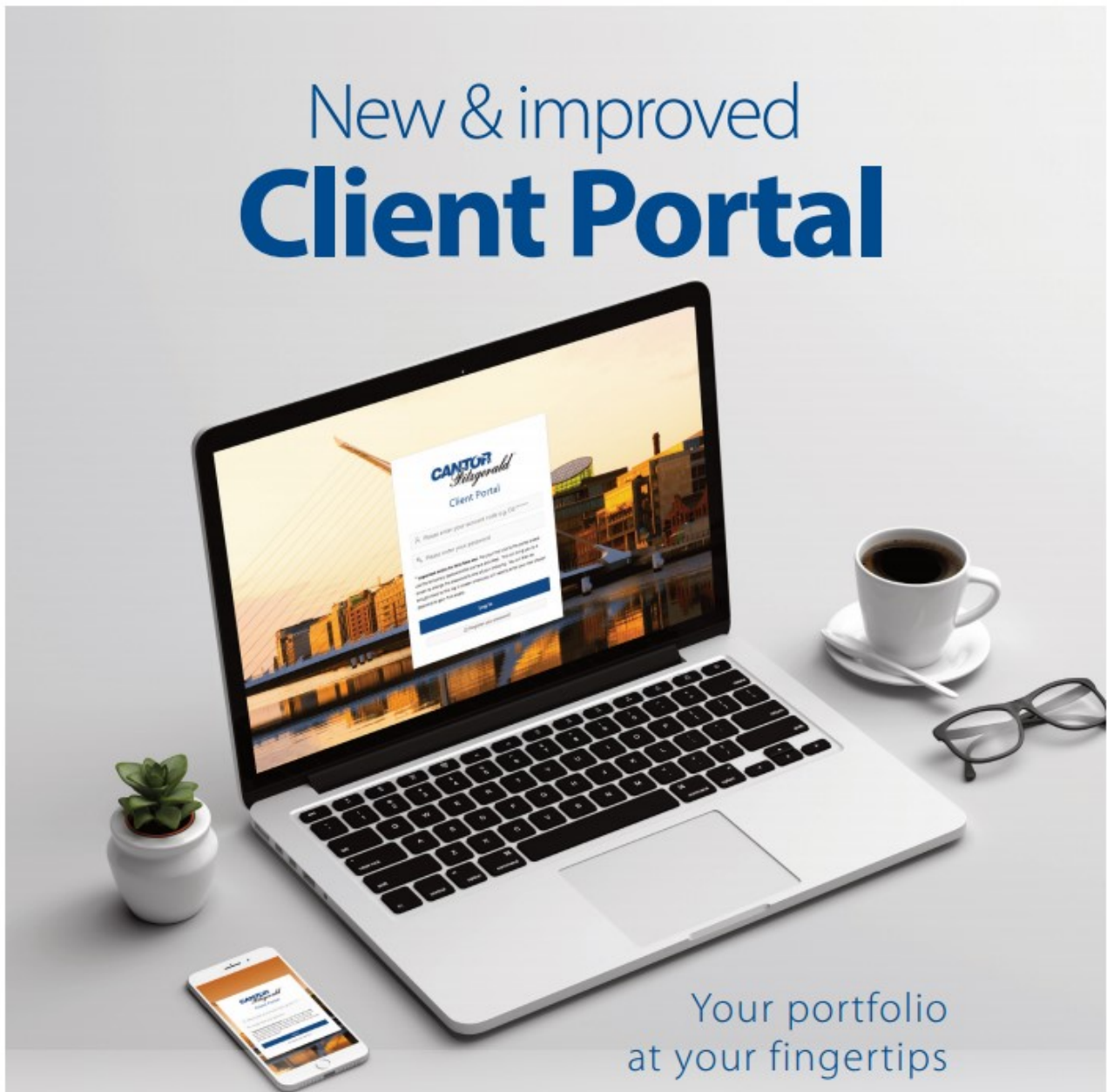


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### Issuer Descriptions: (Source: Bloomberg)

**Allianz:** Allianz through its subsidiaries, provides insurance and financial services.

**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.

**Greencoat Renewables:** Greencoat operates as an investment company. The Company invests in wind and renewable electricity generation assets.

**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:

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