

Weekly Trader

Upcoming Market Opportunities and Events

CANTOR
Fitzgerald

Monday, 14th September 2020

Key Themes This Week

The Week Ahead

It was a choppy environment across global equity markets last week, with big tech stocks losing some of their momentum. With commentators talking of the Nasdaq skirting correction territory, the index slipped 9.6% over the last six trading days, its worst period since March. The market swung in and out of sectors previously out of favour (e.g. Autos), testing the appetite for value rather than growth. There was no single factor driving this volatility but rather a combination.

One issue impacting UK, Irish and EU markets over the past week and set to continue influencing their direction this week, has been the impasse between the EU and Britain on Brexit. Before the eighth round of talks started in London mid-week, the British Government announced that it was looking to promulgate an Internal Market Bill, which is seen as unilaterally making material changes to the agreement the UK formally signed with the EU. These included the issue of the border between Ireland and Northern Ireland. The EU has given the UK Government until the end of the month to amend the Bill saying that it was a serious breach of the current treaty obligation and that adoption of the bill would be an “extremely serious violation” of international law. Perhaps more importantly for Britain’s future negotiations with multiple partners, not just the EU, the Commission has said that this move has “seriously damaged trust”. The UK countered that the bill is a sovereign matter that will be decided on as an internal issue.

While the move may have been a negotiating ploy on the British Government’s side, we believe that it has been badly misjudged and has placed a rift between the negotiating parties at a crucial stage in the Brexit process. The EU has clearly stated that a hard Brexit is not what it wants but if Britain does not back down, this is the ultimate backstop. Talks continue in Brussels this week. Since the first Brexit vote, in comparable sectors (e.g. the supermarket sector) UK stocks have tended to trade at a discount to their EU counterparts, despite generating similar revenue growth and profit margins. We would see this discount continuing if not expanding should the talks remain fractious over this week. This will be exacerbated should the talks continue in their current fashion.

In the US, the rhetoric around the election campaign continues to reverberate, but possibly with less impact on the markets than before. It is now generally accepted that given the economic difficulties associated with the Covid-19 pandemic, the market’s concern over the difference in policy towards business between a Democratic and Republican President after this election will be much muted.

The ECB came out with particularly dovish comments last week. The Central Bank is taking a wait and see stance on monetary policy, noting that there was no need to overreact on Euro gains. Not unexpectedly, its interest rate and pandemic bond-buying programme remain unchanged at -0.5% and €1.35trillion, respectively. The ECB’s take on the EU economy was less bleak than previously, now forecasting an 8% contraction in 2020. Inflation is expected to be c.1.3%, which is well below the central bank’s goal of just under 2%. Brexit bothers coupled with the ECB’s statement has seen Sterling weaken against both the Euro and US dollar, a trend we expect will continue through the coming week, unless there is a dramatic change in the UK’s negotiating position, although at the moment that looks highly unlikely.

Reflecting the above backdrop, our colleagues at MIM have moved from a slightly underweight equity exposure to neutral through the addition of value names in the mining, banking, consumer discretionary and travel & leisure sectors. This positioning is also the theme for this week’s trader as we reiterate our buy recommendation on **Smurfit Kappa**, while revisiting the value we believe there is in **Rio Tinto**. We also include the **MIM Multi-Asset Fund range** which continue to outpace both the market and peer groups.

Major Markets Last Week

	Value	Change	% Move
Dow	27,666	-627.09	-2.22%
S&P	3,341	-114.09	-3.30%
Nasdaq	10,854	-604.56	-5.28%

MSCI UK	13,542	209.30	1.57%
DAX	13,203	360.18	2.80%
ISEQ	6,369	55.72	0.88%

Nikkei	23,559	469.35	2.03%
Hang Seng	24,654	64.67	0.26%
STOXX 600	368	6.03	1.67%

Brent Oil	39.82	-2.19	-5.21%
Crude Oil	37.43	-2.34	-5.88%
Gold	1946	12.03	0.62%

Silver	26.85	0.02	0.07%
Copper	304.1	-2.10	-0.69%

Euro/USD	1.1847	0.00	0.25%
Euro/GBP	0.9240	0.03	2.95%
GBP/USD	1.2821	-0.03	-2.62%

	Value	Change
German 10 Year	-0.49%	-0.03
UK 10 Year	0.18%	-0.08
US 10 Year	0.66%	-0.06

Irish 10 Year	-0.10%	0.00
Spain 10 Year	0.30%	-0.06
Italy 10 Year	1.03%	-0.02

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

Rio Tinto Plc

Closing Price: £49.92



Key Metrics	2020e	2021e	2022e
Revenue (\$'Mn)	40882.4	39738.6	38289.2
EPS (\$)	6.11	5.50	4.77
Price/ Earnings	10.45x	11.6x	13.36x
Div Yield	5.96%	5.46%	4.64%

Total Return	1 Mth	3 Mth	YTD
RIO LN	5.54%	13.87%	19.20%

Source: All data & charts from Bloomberg & CFI

- When looking for long-term value in current markets, we believe that the mining sector in general, and Rio Tinto in particular, is undervalued. Within the sector, Rio Tinto is the world's second-largest mining company with a strong China bias, and so is well placed to benefit from any Chinese economic recovery through an increasing demand for steel. It is particularly leveraged to iron ore, which generates over 72% of the company's EBITDA, well ahead of aluminium, at 10% and copper plus diamonds at 9%.
- Iron ore prices have recovered rapidly since April 2020, up over 50% in the intervening 5-month period. While the price is currently drifting off a close to six-year high, we believe that even if it settles in the \$100-\$120 per tonne range for 2020 (current spot price \$137/tonne; year-to-date average \$109/tonne) it would be positive against current market forecasts. The company also has one of the strongest balance sheets in the sector with net debt/EBITDA at 0.3x compared to an average of 1.4x for its peers.
- Last Friday after sustained investor and public pressure it was announced that the CEO, Iron Ore Unit CEO and Group Executive of Corporate relations will all be stepping down. This follows the controversial destruction of aboriginal caves in Pilbara, Australia in May, which were of high cultural importance, containing artifacts dating back 46,000 years.
- Up 8.2% year-to-date, Rio is only trading at 10.2x FY20 P/E and 5.7x EV/EBITDA. On FY20 EV/EBITDA the stock is trading at a 16% discount, while the discount on FY20 P/E is meaningless as Anglo American and Antofagasta are trading at greatly stretched multiples. On more normalised FY21 P/E multiples, Rio is trading at what we believe to be an unwarranted 26% discount. The strength of the company's balance sheet supports a solid dividend, currently yielding 6.1%, giving further comfort in our **Buy** recommendation.

Smurfit Kappa Group Plc

Closing Price: €31.46



Key Metrics	2020e	2021e	2022e
Revenue (€'Mn)	8436.6	8732.0	9120.6
EPS (€)	2.23	2.56	2.89
Price/ Earnings	14.08x	12.29x	10.89x
Div Yield	3.50%	3.54%	3.56%

Total Return	1 Mth	3 Mth	YTD
SKG ID	6.77%	18.17%	-5.69%

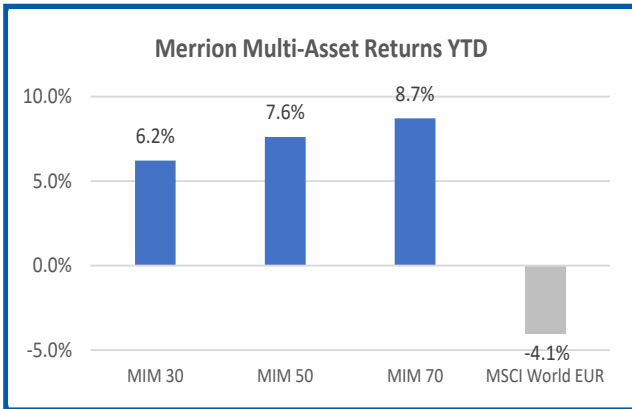
Source: All data & charts from Bloomberg & CFI

- We believe that Smurfit Kappa remains undervalued at current multiples. The stock is trading at 13.9x FY20 P/E and 7.5x EV/EBITDA, an average 13.7% discount to its peers, which we consider undeserved. Trading at parity would imply a share price of €36.05. Our buy call is also underpinned by the restored dividend, currently yielding 3.5%, which is supported by a strong balance sheet. The company's H120 results in July illustrated the resilience of the business in the current economic conditions and provided greater visibility on business progress through the pandemic.
- Smurfit Kappa is one of the largest integrated manufacturers of paper-based packaging solutions in the world. It currently operates in 35 countries globally, 23 in Europe and 12 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% if its EBITDA is generated in Europe, with the remainder coming from the Americas, primarily North America, Mexico and Colombia.
- In Europe, the company's mills and plants primarily produce a full line of containerboard that is converted into corrugated containers. In the Americas Smurfit Kappa operates further up the value chain, owning forestry assets. As in Europe, however, the business primarily consists of mills and plants producing a full line of containerboard that is converted into corrugated containers.
- We forecast that at FY20 year-end, net debt/EBITDA will be at 2.1x. "stretching" this to 2.5x (providing ample headroom assuming banking covenants are capped at 3.5x) could release up to €550m for debt-funded organic growth and/or acquisitions. If deployed in acquisitions, at current multiples (10.2x EBITDA representing a 20% premium to current sector multiples), we forecast that this could grow FY21 earnings by an additional 4%, adding to our investment case.

Opportunities this week

CFI Research Team

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



Total Return	YTD
MIM 30	6.2%
MIM 50	7.6%
MIM 70	8.7%
MSCI World (EUR)	-4.1%

Returns as of the 10/09/2020
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
- Over the week the positioning in the funds remained unchanged at the mid point in terms of asset allocation but very constructive within that
- The funds are overweight both structural growth and cyclical recovery themes
- 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. MIM remain underweight growth assets overall
- 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 period 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

Cantor Core Portfolio - In Detail

Performance YTD	%
Portfolio	-3.6%
Benchmark	-5.9%
Relative Performance	2.3%
P/E Ratio	23.00x
Dividend Yield	2.3%
ESMA Rating	6
Beta	1.01

Sector	Portfolio	Benchmark	+ / -
Consumer Discretionary	12%	10%	
Consumer Staples	7%	11%	
Energy	3%	5%	
Financials	8%	16%	
Health Care	8%	14%	
Industrials	14%	12%	
Information Technology	11%	13%	
Communication Services	12%	7%	
Utilities	9%	4%	
Materials	9%	6%	
Real Estate	4%	2%	
Emerging Markets	3%	0%	

FX	Portfolio	Benchmark
EUR	43%	32%
GBP	15%	15%
USD	42%	40%
Other	0%	14%

Currency YTD %		
GBP	-8.53%	
USD	-5.14%	

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	Total Return Local	Weekly Return	Price	Total Contribution	
STOXX Europe 600	EUR	39	Neutral	60%	-9.5%	1.7%	368	-5.7%	
S&P 500	USD	28	Neutral	40%	4.8%	-3.3%	3341	-0.2%	
Total				100%					-5.91%

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%	13.2%	-7.0%	1516	0.1%	
Verizon Communications Inc	USD	4.1%	H	Communication Services	5%	0.6%	-1.4%	59.79	-0.2%	
BT Group*	GBP	0.0%	H	Communication Services	5%	-42.9%	8.0%	1.10	-2.4%	
Dalata Hotel Group Plc	EUR	0.0%	H	Consumer Discretionary	2%	-42.9%	-6.2%	2.94	-0.9%	
Amazon.Com Inc	USD	0.0%	H	Consumer Discretionary	4%	68.6%	-7.5%	3116	2.4%	
McDonald'S Corp	USD	2.3%	H	Consumer Discretionary	3%	12.4%	2.0%	218.00	0.2%	
Carnival	USD	0.0%	H	Consumer Discretionary	3%	-64.8%	0.6%	17.69	-2.0%	
Glanbia Plc	EUR	2.7%	H	Consumer Staples	4%	-5.4%	-0.9%	9.43	-0.2%	
Danone	EUR	3.6%	H	Consumer Staples	3%	-19.7%	2.0%	57.30	-0.6%	
Royal Dutch Shell Plc*	GBP	5.4%	H	Energy	3%	-52.0%	-0.3%	10.32	-2.0%	
Total Sa	EUR	7.7%	S	Energy	0%	-30.3%	-1.4%	32.52	-0.2%	
Allianz Se	EUR	5.3%	H	Financials	4%	-11.1%	2.4%	183.02	-0.4%	
ING Groep Nv	EUR	5.1%	H	Financials	4%	-34.2%	0.9%	7.03	-1.4%	
Sanofi	EUR	3.7%	H	Health Care	3%	1.2%	4.8%	87.54	0.0%	
Pfizer Inc	USD	4.1%	H	Health Care	5%	-5.1%	-0.9%	36.07	-0.5%	
Vinci Sa	EUR	1.8%	H	Industrials	4%	-20.6%	-2.7%	77.44	-0.8%	
Siemens Gamesa Renewable Energy	EUR	0.0%	H	Industrials	3%	41.2%	5.7%	22.02	1.2%	
DCC Plc	GBP	2.3%	H	Industrials	4%	-0.5%	2.6%	64.20	-0.4%	
Fedex Corp	USD	1.2%	H	Industrials	3%	56.0%	5.3%	232.79	1.4%	
SAP Se	EUR	1.2%	H	Information Technology	4%	14.3%	2.0%	135.50	0.6%	
Paypal Holdings Inc	USD	0.0%	H	Information Technology	4%	70.1%	-10.2%	184.00	2.5%	
Microsoft Corp	USD	0.9%	H	Information Technology	3%	30.4%	-6.1%	204.03	0.7%	
Smurfit Kappa Group Plc	EUR	3.6%	H	Materials	3%	-5.7%	3.3%	31.46	-0.2%	
Newmont Corp	USD	1.4%	H	Materials	3%	54.1%	0.5%	66.22	1.4%	
Invesco Physical Gold ETC	USD	0.0%	H	Materials	3%	27.9%	1.4%	188.92	0.4%	
Kennedy Wilson Holdings Inc	USD	6.0%	H	Real Estate	4%	-33.1%	-1.2%	14.47	-1.5%	
Engie	EUR	0.0%	H	Utilities	5%	-18.2%	1.2%	11.78	-0.9%	
Greencoat Renewables Plc	EUR	4.9%	H	Utilities	4%	4.3%	-2.5%	1.19	0.2%	
JPMorgan Emerging Markets Trust	GBP	1.8%	H	Emerging Markets	3%	-0.5%	0.6%	10.52	-0.3%	
Total					100%					-3.57%

All data taken from Bloomberg up until 11/09/2020.

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

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	Corporate	Corporate	Corporate	Corporate
Greencoat Renewables PLC	FedEx Corp	Industria de Diseno Textil SA	Next PLC	Applegreen PLC
Economic	Economic	Economic	Economic	Economic
EU Industrial Production	Chinese Industrial Output UK Unemployment German ZEW Economic Sentiment US NY FED Empire State Index US Industrial production	Japanese Trade Balance UK CPI & PPI US Retail Sales US NAHB Homebuilder Sentiment Fed Interest Rate Announcement Fed Press Conference	BoJ Interest Rate Announcement EU Final HICP BoE Interest Rate Announcement US Housing Starts US Philly Fed Index US Initial Jobless Claims	Japanese CPI UK Retail Sales US Prelim' Michigan Consumer Sentiment

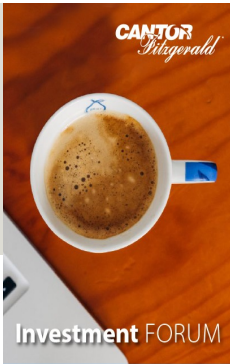
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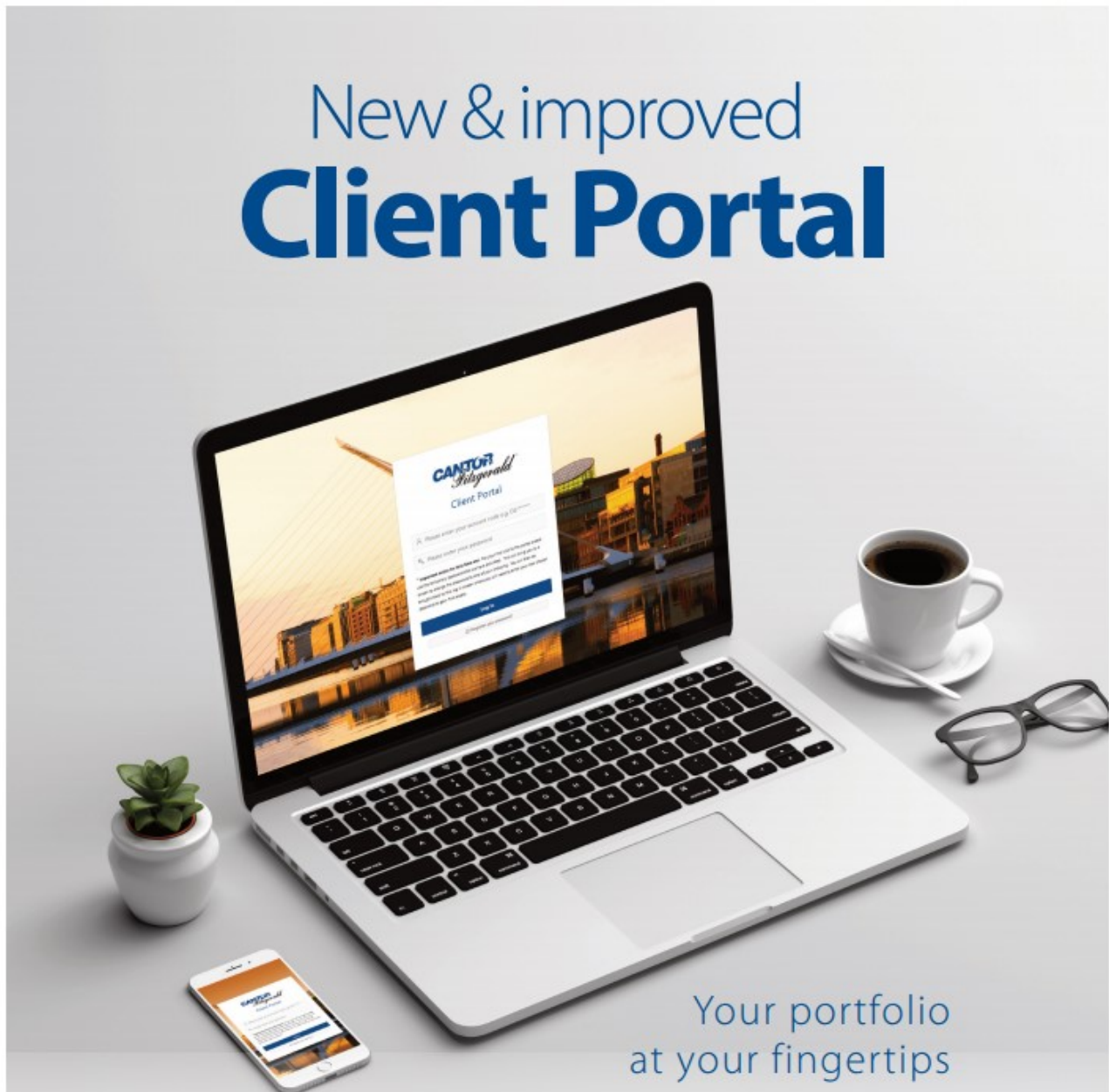


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Issuer Descriptions: (Source: Bloomberg)

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

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