Weekly **Trader**

Upcoming Market Opportunities and Events

CANTOR Fitzgerald

Monday, 9th November 2020

Key Themes This Week

The Week Ahead
Against the backdrop of an inconclusive US election result and an increase in coronavirus cases in Europe and the US, global equity markets registered strong gains of on average 7.5% last week. Ironically, it was the mixed outcome of the US election that proved to be the catalyst for equity markets as the status quo make-up of the Senate and House of Representatives means that in the event of a Biden win, the risks of an over-sized stimulus package which would have a dramatic negative impact on the US budget deficit, along with tax increase and regulatory interference have all been significantly reduced. The much anticipated 'blue wave' of a Democratic victory for the White House, the Senate and Congress failed to materialise with the Republicans retaining control of the legislatively more important Senate.

While there is no doubt that markets would have been excited about the potential for the $5tn stimulus package that Joe Biden was suggesting during his campaign, the reality is that a package of such a size would have come with a price tag of an even higher deficit which in turn would result in a significant move higher in bond yields as well as a quicker than expected reversal in US monetary policy. The likelihood now is that a stimulus package of more modest proportions will be agreed, with Republican House leader McConnell intimating that such a package could be delivered before the year-end. This in our opinion is the best possible outcome as it will support a US economy which on an economic headline basis appears to be recovering extremely well, but in reality is now facing renewed headwinds as daily virus cases hit a record 120,000 and hospitalisations reach 50,000.

Also supporting markets into the tail-end of last week was the US Federal Reserve which, while leaving interest rates unchanged, did note the sharp increase in virus cases and the associated economic risks that this brings and indicated that it still has the capacity to add to its monetary policy programmes by increasing the current pandemic lending facilities, increasing the size of its current asset purchase programme or adjusting the duration of the assets it buys under this programme.

Against the noise of the election, the earnings season moved towards a conclusion last week and with just over 80% of S&P 500 companies having reported, 86% have exceeded expectations on earnings. More significantly however is the fact that of the companies that have exceeded earnings forecast, they have exceeded estimates by roughly 18%. Equally, in a further sign of recovering confidence by CEOs, there are a growing number of companies which have recommenced the payments of the dividends that were suspended during the first wave of the pandemic.

As we outlined in last week's Trader we continue to remain positive on risk assets into year-end and into 2021 and reiterate that view this week as we move beyond the election uncertainty and as the chances for the delivery of both a stimulus package and a vaccine increase. We therefore reiterate our view that clients use periods of market weakness to incrementally add to the value sectors of the market as well as our preferred names in the technology sector. The rationale for this view will be outlined in greater detail in our upcoming client webinar which will be held tomorrow at 12.30. The theme of the webinar is Driving Profitability in Extreme Change and will feature a market and investment update from our colleagues in Merrion Investment Managers, the prospects for a vaccine from one of Cantor New York's pharmaceutical analysts, along with insights on the current economic environment from a number of leading Irish CEO's. Please contact your Cantor portfolio manager for details on how to register for this event.

This week in the Trader we cover paper & packaging group **Smurfit Kappa** following a positive trading up-date last week, **DCC** who report half-year results tomorrow, mining group **Rio Tinto** and our regular commentary on the **MIM Multi-Asset Funds**.

Major Markets Last Week

	Value	Change	% Move
Dow	28,323	1821.80	6.87%
S&P	3,509	239.48	7.32%
Nasdaq	11,895	983.64	9.01%
MSCI UK	13,222	563.29	4.45%
DAX	12,480	923.54	7.99%
ISEQ	6,815	297.73	4.57%
Nikkei	24,840	1862.71	8.11%
Hang Seng	26,049	1588.85	6.50%
STOXX 600	366	24.04	7.02%
Brent Oil	40.49	1.52	3.90%
Crude Oil	37.95	1.14	3.10%
Gold	1956	60.15	3.17%
Silver	25.62	1.53	6.34%
Copper	316.25	8.55	2.78%
Euro/USD	1.1891	0.03	2.15%
Euro/GBP	0.9010	0.00	-0.02%
GBP/USD	1.3197	0.03	2.17%

	Value	Change
German 10 Year	-0.63%	0.01
UK 10 Year	0.27%	0.01
US 10 Year	0.82%	-0.02
Irish 10 Year	-0.28%	-0.01
Spain 10 Year	0.08%	-0.04
Italy 10 Year	0.62%	-0.12
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: £46.22

Key Metrics	2020e	2021e	2022e
Revenue ($'Mn)	42461.7	42362.3	39641.4
EPS ($)	6.63	6.23	5.01
Price/ Earnings	9.2x	9.78x	12.17x
Div Yield	6.99%	6.94%	5.56%

Total Return	1 Mth	3 Mth	YTD
RIO LN	-3.72%	-1.02%	10.37%

Source: All data & charts from Bloomberg & CFI

- Rio Tinto's share price has rallied over the last week after a 6-week dip that was driven by macro-economic rather than company specific concerns. That said, we still believe that the stock represents good value at or around 4500p and would be looking to pick up or add to positions at this level.
- The stock is currently trading at 9.5x FY21 P/E and 5.2x EV/EBITDA. While this is only a 6% discount to its peers, we believe that the stock deserves to trade at a premium given its specific exposure to China combined with iron ore. Our peer-comparative and DCF-derived price target of 5125p implies a 14% upside in price, which is also supported by a well-covered dividend, currently yielding 6.6%.
- While the company is particularly leverage to iron ore, which generates over 72% of Group underlying EBITDA, it also has exposure to aluminium (10% of EBITDA) and copper plus diamonds (9%). The remainder of profits are generated from its Energy & Minerals division. While the company has a global footprint both in terms of on-the ground operations and end markets, just over a half of its revenue (51%) is generated in China, with the next largest market being the USA at 14%. Japan accounts for 9% of revenue with Asia (ex-China and Japan) at 11%.
- Rio Tinto has one of the strongest balance sheets in the sector with net debt/EBITDA at 0.3x at year-end FY19 compared to an average 1.4x for its peers. This is forecast to fall to 0.2x in FY20 and with no acquisitions in forecasts and assuming normal levels of working capital, the business could possibly move into a net cash position in either FY22 or FY23. Given such low leverage and even with a depressed pandemic-impacted EBITDA of $19.4bn, "stretching" the balance sheet to a ND/EBITDA of 2.5x, could release $44bn for debt-funded growth.

Smurfit Kappa Group PLC — Closing Price: €36.04

Key Metrics	2020e	2021e	2022e
Revenue (€'Mn)	8531.3	8811.0	9142.8
EPS (€)	2.29	2.52	2.78
Price/ Earnings	15.71x	14.31x	12.95x
Div Yield	3.49%	3.20%	3.34%

Total Return	1 Mth	3 Mth	YTD
SKG ID	3.98%	24.45%	8.03%

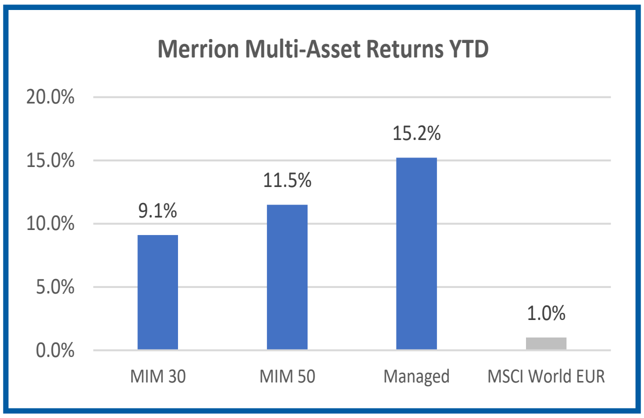
Source: All data & charts from Bloomberg & CFI

- Last week, Smurfit Kappa issued a short but strong Q320 trading update reporting a performance that was ahead of expectations. Revenue for the first nine months came in at €6.31bn with an EBITDA of €1.12bn at a margin of 17.8%. The company announced a second interim dividend of 27.9c per share to bring the dividend back in line with payment cycles of previous years.
- As we have previously flagged, the business is strongly weighted towards FMCG customers where it is well positioned to enhance growth from the accelerating trends in e-commerce, innovative packaging and increased consumer demand for th4e packaging to be sustainable.
- Both a global footprint and diversified product line, in our opinion, 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 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 and 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%
- The latest six-day rally has seen the price appreciate 12%, which has the stock now trading up 3% year-to-date. While this has expanded the FY20 P/E and EV/EBITDA multiples to 15.5x and 8.1x, respectively, they are still at an 8.5% discount to the company's peers, which we consider undeserved. We also believe that the risk is to the upside as forecasts expand on the back of the trading update. Our unchanged peer-comparative derived price target of €39.50 implies a further 12% upside, underpinned by the restored dividend, currently yielding 3.5%.

Opportunities this week

CFI Research Team

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



Total Return	YTD
MIM 30	9.1%
MIM 50	11.5%
Managed	15.2%
MSCI World (EUR)	1.0%

Returns as of the 05/11/2020
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
- MIM funds have performed strongly thus far over the election week (both absolute and relative to market peers) and continue to be positioned at the upper end of their ranges
- The team have made very little changes to the funds with the exception of some alterations to their hedges given the exceptional rally month to date (Best start ever to a November & only 3 other times since the war has the S&P 500 gained 1% or more for 4 days in a row)
- The funds are overweight both structural growth and cyclical recovery themes and have a very positive outlook over the medium term
- Despite the short-term uncertainties and volatility ahead with Brexit and Covid-19 news, equity markets will look to the combination of zero rates and fiscal expansion which will continue to drive investment into the industries that will dominate the next decade.
- 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 4th quarter of this year & into next year.

DCC PLC Closing Price: £52.50

Key Metrics	2021e	2022e	2023e
Revenue (£'Mn)	13243.5	14398.9	14616.9
EPS (£)	3.35	3.70	3.89
Price/ Earnings	15.67x	14.18x	13.48x
Div Yield	2.82%	2.99%	3.14%

Total Return	1 Mth	3 Mth	YTD
DCC LN	-2.81%	-24.72%	-18.63%

Source: All data & charts from Bloomberg & CFI

- DCC issues its H121 results tomorrow, when it is expected to report a 12% dip in adj. EPS to 96.9p from a 20% fall in revenue to £5.87bn. Expectations have been ticking up over the past month on better than expected trading conditions as pandemic restrictions were lifted across Europe. That said, with restrictions back on the agenda, the market will possibly be more interested in forward guidance, if any, rather than historical numbers.
- In its qualitative Q121 trading update issued in mid-July, the company described progress as "resilient", noting that business had improved between mid-May and mid-July, albeit including what is the seasonally less significant quarter to the end of June.
- In the H121 results the market will be looking for updates on the balance between the different drivers in each division. In the LPG business (52% of operating profit) the balance between weakness in commercial and industrial volumes versus increased domestic demand will be critical. In Retail & Oil (36% of profit), the dynamic under scrutiny is the balance between agricultural and domestic sector demand, which was strong in Q121, and the more significant demand for transport fuels, which was weak.
- In Technology (8% of profit) the underlying demand for consumer products is expected to have been strong, but whether or not it will have been enough to counter the falloff in B2B demand noted in Q121 is the question. Not unexpectedly, the division expected to outperform is Healthcare (4% of profit), which reported operating profit "well ahead" of the prior year in the Q121 trading update.
- After some recovery through to July, the share price has weakened over the past three months and is currently down c.20% year-to-date. That said, it has bounced off support at 5000p and if H121 numbers come in better than expected it could fuel continued upward momentum.

Cantor Core Portfolio - In Detail

Performance YTD	%
Portfolio	**0.6%**
Benchmark	**-4.1%**
Relative Performance	**4.7%**
P/E Ratio	**27.69x**
Dividend Yield	**2.2%**
ESMA Rating	**6**
Beta	**0.98**

Sector	Portfolio	Benchmark	+ / -
Consumer Discretionary	7%	7%	
Consumer Staples	7%	11%	
Energy	0%	11%	
Financials	0%	3%	
Health Care	13%	13%	
Industrials	7%	15%	
Information Technology	27%	12%	
Communication Services	13%	16%	
Utilities	13%	7%	
Materials	0%	2%	
Real Estate	7%	4%	
Emerging Markets	7%	0%	

FX	Portfolio	Benchmark
EUR	47%	32%
GBP	13%	13%
USD	40%	40%
Other	0%	16%

Currency YTD %		
GBP	-6.36%	
USD	-5.64%	

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	Total Return Local	Weekly Return	Price	Contribution	
STOXX Europe 600	EUR	39	Neutral	60%	-9.7%	7.1%	366	-5.8%	
S&P 500	USD	28	Neutral	40%	10.3%	7.4%	3509	1.7%	
Total				**100%**					

Core Portfolio

Weighted Average Contribution

Stock	Currency	Yield*	Hold /Sold	Sector	Weighting	Total Return Local	Weekly Return	Price	*Contribution	
Verizon Communications Inc	USD	4.3%	H	Communication Services	6.67%	-0.5%	2.7%	58.53	-0.2%	
Amazon.Com Inc	USD	0.0%	H	Consumer Discretionary	6.67%	79.2%	9.1%	3311.37	0.5%	
JPMorgan Emerging Markets Trust	GBp	1.3%	H	Emerging Markets	6.67%	16.5%	5.2%	1.22	1.1%	
Allianz Se	EUR	5.9%	H	Financials	6.67%	-18.3%	11.3%	168.06	-0.5%	
JPMorgan Chase & Co	USD	3.6%	H	Financials	6.67%	-23.4%	5.0%	102.96	0.3%	
Sanofi	EUR	3.7%	H	Health Care	6.67%	-3.7%	7.7%	83.32	-0.4%	
Vinci Sa	EUR	2.0%	H	Industrials	6.67%	-24.6%	8.4%	73.54	-0.3%	
Siemens Gamesa Renewable Energy	EUR	0.0%	H	Industrials	6.67%	65.1%	5.8%	25.74	0.8%	
Fedex Corp	USD	1.0%	H	Industrials	6.67%	87.4%	7.8%	279.77	0.8%	
Ryanair Holdings Plc	EUR	0.0%	H	Industrials	6.67%	-9.0%	12.6%	13.31	0.5%	
Paypal Holdings Inc	USD	0.0%	H	Information Technology	6.67%	87.4%	8.9%	202.73	0.8%	
Microsoft Corp	USD	1.0%	H	Information Technology	6.67%	43.0%	10.5%	223.72	0.6%	
Rio Tinto Plc	GBP	7.3%	H	Materials	6.67%	10.4%	6.1%	4622.00	-0.5%	
Smurfit Kappa Group Plc	EUR	3.4%	H	Materials	6.67%	8.0%	11.5%	36.04	0.5%	
Engie	EUR	0.0%	H	Utilities	6.67%	-23.4%	6.3%	11.04	-0.5%	
Total					**100%**					

All data taken from Bloomberg up until 06/11/2020.

*Contribution since being reweighted on the 16.09.2020

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 forcast

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	**Corporate**	**Corporate**	**Corporate**	**Corporate**
Carnival PLC McDonald's Corp	adidas AG DCC PLC	Continental AG	Siemens AG Hewlett Packard Enterprise Co Walt Disney Co Cisco Systems Inc	Engie SA
Economic	**Economic**	**Economic**	**Economic**	**Economic**
German Trade Balance EU Sentix Index	UK Retail Sales Chinese PPI Chinese CPI French Industrial Output French ILO Unemployment Rate UK ILO Unemployment Rate German ZEW Economic Sentiment	UK Business Investment	German Final HICP UK Q3 GDP UK Industrial Output EU Industrial Production Irish CPI US CPI US Initial Jobless Claims	French Final HICP EU Flash Unemployment EU Q3 GDP EU Trade Balance US PPI US Preli. Michigan Consumer Sentiment

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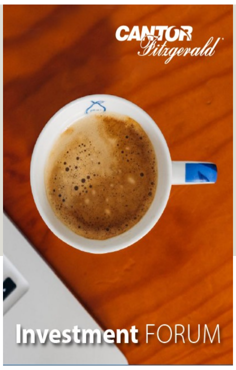

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FedEx: FedEx delivers packages and freight to multiple countries and territories through an integrated global network
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ING Groep: ING Groep is a global financial institution providing retail and wholesale financial services.
BT Group: BT Group is a UK based telecommunications company.
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