Weekly Trader

Upcoming Market Opportunities and Events

Monday, 31st May 2021

Key Themes This Week

The Week Ahead
Equity markets registered gains of just under 1% last week but volumes were below their 30 Day average, as investors sought a catalyst following the conclusion of the first-quarter reporting season. For the second week in a row, Growth sectors outperformed however there was a modest rotation back into the Value sectors of the market towards the end of the week. The main focal points for markets continue to be on the ongoing inflation debate as well as fiscal and budgetary policy from the US.

The outperformance by the Growth sectors of the market during the week was driven by a moderation in inflation expectations as commodity prices in areas such as industrial metals (copper and iron ore), agricultural commodities (wheat, corn and soyabeans) and lumber all traded down from their recent highs. This, along with repeated assurances from the US Federal Reserve and ECB speakers that now was not the time to withdraw monetary policy support, saw core bond yields move lower in the early part of the week with the US 10 Year yield falling to as low as 1.56% before finishing marginally down for the week at 1.59%. In Europe, the weekly move in the German 10 Year yield was slightly more pronounced, declining by 5 basis points to -0.18%

While the debate over whether the recent move higher in inflation represents a more sustained move higher, we continue to be of the opinion that such a move will be transitory with price action in the bond market, as well as future inflation expectations lending support to this view. As a result we continue to see opportunities in the Growth focused technology and renewables sector.

While our preference for Growth areas of the market remains, there is scope for some value areas of the market, such as autos (see our view on **Volkswagen** in last week's Trader), construction related stocks such as **CRH** and **Kingspan** and commodities to perform well. These sectors will potentially be boosted by specific factors such as the move to electric vehicles for VW as well as the likely implementation of President Biden's Infrastructure Bill as well as the $6tn budget announced on Friday by the President. The latter two moves will act as continued support for the strong rebound in economic activity witnessed so far this year, even if this rate of rebound moderates somewhat in the second-half of the year.

We remain positive on or medium to longer-term outlook for risk assets, but expect the more recent sideways moves in markets to continue in the short-term with the upcoming meetings of the ECB (10TH June) and US Federal Reserve (15/16th June) as being the next potential catalysts for a more pronounced move in equity and bond markets.

In this week's Trader we include two stocks which we recently held post-results management meetings with and which both offer attractive dividend yields in the current negative deposit rate environment in the form of **Hibernia REIT** and the UK listed **Supermarket Income REIT,** while we also include mining group **Rio Tinto** which is now trading some 9% lower than the time of our recommendation to take trading profits on 10th May. We also include the regular update on the Merrion Multi-Asset Fund range.

Major Markets Last Week

	Value	Change	% Move
Dow	34,529	321.61	0.94%
S&P	4,204	48.25	1.16%
Nasdaq	13,749	227.75	2.06%
MSCI UK	16,130	-11.86	-0.07%
DAX	15,520	149.72	0.97%
ISEQ	8,283	153.61	1.89%
Nikkei	28818	453.37	1.60%
Hang Seng	28,968	555.87	1.96%
STOXX 600	449	4.54	1.02%
Brent Oil	69.12	-2.64	0.96%
Crude Oil	66.77	-2.32	1.09%
Gold	1,907	17.73	1.40%
Silver	28.05	-0.49	1.00%
Copper	467.45	-24.90	3.29%
Euro/USD	1.2201	0.00	-0.12%
Euro/GBP	0.8595	0.00	0.40%
GBP/USD	1.4196	0.00	0.28%

	Value	Change
German 10 Year	-0.18%	-0.05
UK 10 Year	0.79%	-0.04
US 10 Year	1.59%	-0.01
Irish 10 Year	0.21%	-0.07
Spain 10 Year	0.47%	-0.08
Italy 10 Year	0.91%	-0.12
BoE	0.1	0.00
ECB	0.00	0.00
Fed	0.25	0.00

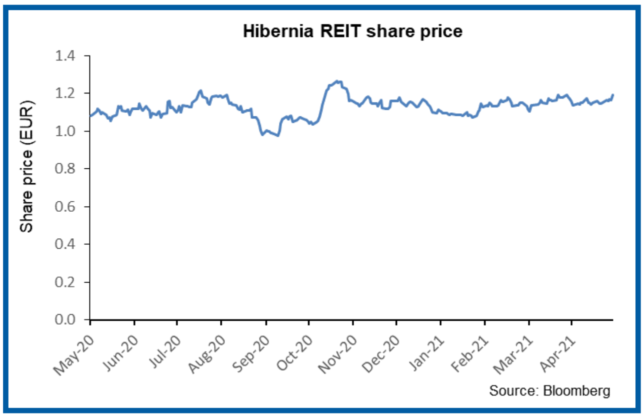
All data sourced from Bloomberg

Opportunities this week

CFI Research Team

Hibernia REIT

Closing Price: €1.20



Key Metrics	2021e	2022e	2023e
Revenue (€'Mn)	66.4	66.9	65.0
EPS (€)	0.06	0.06	0.06
Price/ Earnings	18.92x	21.28x	19.86x
Div Yield	4.36%	4.36%	4.36%

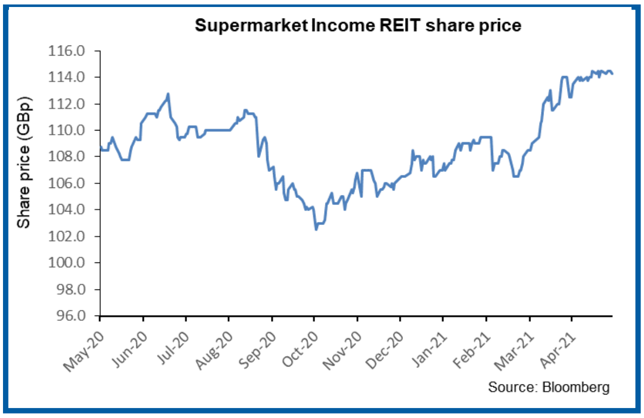
Share Price Return	1 Mth	3 Mth	YTD
HBRN ID	-2.18%	3.37%	-17.45%

Source: All data & charts from Bloomberg & CFI

- We came out of our meeting with Hibernia REIT management after they released their solid FY21 results with a clear picture of how the business is looking to progress over the mid-term. While project developments have been held back by pandemic-related lockdowns and on reopening may be hindered by raw material shortages, these should be temporary in nature. Properties coming onto the market over the short-term are not fully rented but we understand that the demand is there with clients only holding off until there is clear momentum in the return to office movement.
- Over the mid-term, the REIT's Clanwilliam and Harcourt properties are coming off the market for redevelopment. While rental income will dip, management is committed to retaining the dividend at current levels. With available finance of €240m against a 5-year capex spend of €300m, we believe that the REIT will return to the debt market to fund the difference, but with the current LTV still low at 30%, it has more than adequate headroom to tap the debt market. In redeveloping its properties, Hibernia is looking to differentiate them within the market by providing buildings that not only meet but exceed current ESG standards.
- Since its partial recovery from the pandemic-induced market sell-off in March 2020, Hibernia REIT has been trading in the €1.00 to €1.20 range, the upper level still some 15% below pre-pandemic levels. While net asset value slipped 4% to 172.7c per share at fiscal year-end, it means that the stock is currently trading at an over 30% discount to NAV. We understand that some discount to the UK sector, which is trading at an average 14% premium to NAV, would be expected given the market's caution (possibly unjustified now) on Irish property valuations after the previous crisis, the relatively small size of the REIT and the uncertainty over Irish government direction on taxes and stamp duty. That said, we would consider the level of discount overstated.

Supermarket Income REIT

Closing Price: £1.14



Key Metrics	2021e	2022e	2023e
Revenue (£'Mn)	49.2	66.3	71.1
FFO PS(£)	6.2	7.5	7.8
Price/FFO	0.18	0.15	0.15
Div Yield	5.15%	5.33	5.41

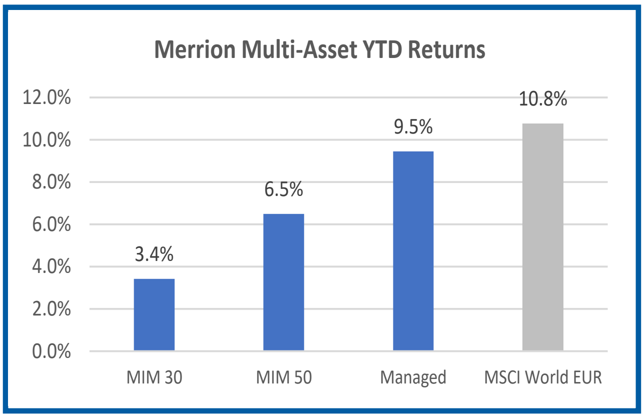
Share Price Return	1 Mth	3 Mth	YTD
SUPR LN	0.4%	4.6%	7.5%

- Last Thursday week, Supermarket Income REIT management presented to the desk with an overview of the REIT's business model and performance. SUPR boasts an impressive management team who all possess a large amount of knowledge and expertise in the super-market property sector. The three key pillars of the REIT business model are: the acquisition of long-term leases with inflation-linked uplifts; focus on omnichannel retailers that provide last mile fulfilment; and focus on large sites that provide scope for omnichannel scaling. The REIT targets an annual total shareholder return of 7-10%, made up of 5% dividend income and the remaining capital appreciation through net yield compression.
- The supermarket sector has been one of the pandemic winners and this has been reflected in SUPR's operating performance with rent collection levels of 100% through the peak of the pandemic as omnichannel retail revenue levels ticked up strongly. All of the 'big four' grocers, who make up c.97% of SUPR's portfolio, significantly ramped up omnichannel capacity over the period, leading to lower fulfilment costs and higher margins through economies of scale.
- SUPR offers a highly attractive yield arbitrage between long-term supermarket bond yields and the current 5.1% yield offered by the REIT, with the current spread at c.3%. SUPR's growing portfolio of high-quality supermarket assets now totals 54 stores (29 directly owned, 26 indirectly owned), and with a current LTV of 44% and weighted average cost of debt of c.2%, SUPR is favourably positioned to increase its market share of the omnichannel supermarket sector, which management has guided that it intends to do. SUPR's business model continues to looks robust, buoyed in particular by the strong momentum in the omnichannel retail space, which management is confident will remain fundamental to the sector post-Covid.

Opportunities this week

CFI Research Team

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



Total Return	YTD
MIM 30	3.4%
MIM 50	6.5%
Managed	9.5%
MSCI World (EUR)	10.8%

Returns as of the 27/05/2021

- MIM multi asset (30/50/Managed) 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 clients.
- Diversification with active management can deliver very strong returns with reduced volatility in times of market stress
- The funds are currently positioned above the mid-point of their asset allocation range for growth assets, with a bias towards structural growth and commodity exposure.
- In recent weeks MIM have increased their relative exposure to some of the secular winners in Tech that had de-rated during the Q1 rotation into Cyclicals. This week the team continued to rotate out of fully valued cyclicals and added some beneficiaries of the decarbonisation mega-trend.
- Despite the uncertainties presented by Covid-19, 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 of this year.

Rio Tinto

Closing Price: £60.64

Key Metrics	2021e	2022e	2023e
Revenue ($'Mn)	59117.7	48396.8	45070.9
EPS ($)	12.78	8.92	7.01
Price/ Earnings	6.7x	9.6x	12.21x
Div Yield	10.78%	7.43%	5.74%

Share Price Return	1 Mth	3 Mth	YTD
RIO LN	-2.35%	-1.83%	34.89%

Source: All data & charts from Bloomberg & CFI

- In early May, we opined that iron ore prices were stretched and had resulted in Rio Tinto's share price spiking to unsustainable levels over such a short time period. We suggested that while remaining positive on the stock over the long-term, it could be opportune from a trading perspective to take profit on the stock. In the interim, not only have iron ore prices come off (down over 15%), but so has Rio's share price (down over 7%), to a level where we now would be comfortable picking up the stock again. Despite the pullback, the stock is up 34% on pre-pandemic levels and 12% year-to-date. Despite this price appreciation, the stock is only trading at 6.7x FY21 P/E and 4.0x EV/EBITDA, an 11% discount to its peers and over 25% discount to its 10-year average.
- Rio continues to benefit from favourable trading conditions in its core market, China, and in its core product (iron ore), where over the longer-term global spot prices have continued their upward momentum. Iron ore prices are up just over 80% over the last 12 months. Along with copper and tin, commodity prices are being driven up as the market anticipates a rebound in activity as the global economy emerges from the grips of the pandemic. Indeed, stimulus measures and continuing vaccine rollouts are fuelling prospects for a resurgence in demand that is set to strain supply chains.
- Note that in its mid-April Q121 production update, management noted that it expects robust global economic growth in the near term, fuelled by strong fiscal spending and monetary policy and expanding vaccine deployment as the year progresses. In particular, Rio noted that China's industrial economy continues with strong momentum. Last year's stimulus programmes gave rise to a sustainable recovery in property and infrastructure construction. Policy focus is now shifting from supply (investment) to demand (consumption) with growth, therefore, expected to pivot towards consumption of goods and services.

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	**Corporate**	**Corporate**	**Corporate**	**Corporate**
	Aryzta Hewlett Packard	Wizz Air	Remy Cointreau Providence Resources (E)	Norwegian Air
Economic	**Economic**	**Economic**	**Economic**	**Economic**
JPN: Industrial Output (Apr) JPN: Retail Sales (Apr) EU-19: M3 Money Supply	UK: Nationwide House prices (May) EU-19: Final manufacturing PMI (May) EU-19: Flash HICP US: Manufacturing ISM (May)	GER: Retail Sales (Apr) UK: BoE Mortgage Approvals (Apr) EU-19: Producer Prices (Apr)	EU-19: Final Composite PMI - Services (May) US Initial Jobless Claims US: Final Composite PMI - Services (May) US: Non-Manu-facturing ISM (May)	EU-19: Retail Sales (April) US: Non-farm payrolls (May) - unemployment rate - average earnings

Cantor Core Portfolio - In Detail

Performance YTD	%
Portfolio	10.1%
Benchmark	13.9%
Relative Performance	-3.8%
P/E Ratio	29.09x
Dividend Yield	2.3%
ESMA Rating	6
Beta	1.05

Sector Weights	Portfolio	Benchmark	+ / -
Communication Services	6.7%	6.9%	
Consumer Discretionary	6.7%	10.6%	
Consumer Staples	0.0%	10.8%	
Energy	0.0%	3.0%	
Financials	6.7%	12.7%	
Health Care	6.7%	14.8%	
Industrials	26.7%	11.9%	
Information Technology	13.3%	16.5%	
Materials	20.0%	6.5%	
Real Estate	0.0%	2.4%	
Utilities	6.7%	4.0%	
Emerging Markets	6.7%	0.0%	

FX	Portfolio	Benchmark
EUR	53%	32%
GBP	13%	13%
USD	33%	40%
Other	0%	16%

Currency YTD %	
GBP	4.01%
USD	0.21%

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	Total Return Local	Weekly Return	Price	Contribution
STOXX Europe 600	EUR	39	Neutral	60%	14.6%	1.1%	449	8.7%
S&P 500	USD	28	Neutral	40%	12.6%	1.2%	4204	5.1%

Core Portfolio

Weighted Average Contribution

Stock	Currency	Yield*	Hold /Sold	Sector	Weighting	Total Return Local	Weekly Return	Price	*Contribution
Verizon Communications Inc	USD	4.5%	H	Communication Services	6.67%	-1.8%	-0.7%	56.49	-0.1%
Amazon.Com Inc	USD	0.0%	H	Consumer Discretionary	6.67%	-1.0%	0.6%	3223.07	-0.1%
JPMorgan Emerging Markets Trust	GBp	1.1%	H	Emerging Markets	6.67%	2.1%	1.8%	1.33	0.4%
Allianz Se	EUR	4.7%	H	Financials	6.67%	13.4%	1.3%	217.75	0.9%
Sanofi	EUR	3.7%	H	Health Care	6.67%	16.0%	-0.3%	87.96	1.1%
Vinci Sa	EUR	2.5%	H	Industrials	6.67%	17.5%	0.0%	93.40	1.2%
Siemens Gamesa Renewable Energy	EUR	0.0%	H	Industrials	6.67%	-18.1%	3.1%	27.11	-1.2%
Fedex Corp	USD	0.8%	H	Industrials	6.67%	21.6%	1.7%	314.81	1.5%
Ryanair Holdings Plc	EUR	0.0%	H	Industrials	6.67%	3.7%	2.2%	16.85	0.2%
Paypal Holdings Inc	USD	0.0%	H	Information Technology	6.67%	11.0%	3.7%	260.02	0.7%
Microsoft Corp	USD	0.9%	H	Information Technology	6.67%	12.8%	1.8%	249.68	0.9%
Rio Tinto Plc	GBP	6.4%	H	Materials	6.67%	16.3%	1.2%	6064.00	1.4%
Smurfit Kappa Group Plc	EUR	2.7%	H	Materials	6.67%	17.0%	0.2%	43.58	1.1%
CRH Plc	EUR	2.4%	H	Materials	6.67%	28.8%	2.8%	42.95	1.9%
Engie	EUR	4.3%	H	Utilities	6.67%	2.1%	-2.8%	12.27	0.1%

All data taken from Bloomberg up until 28/05/2021.

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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

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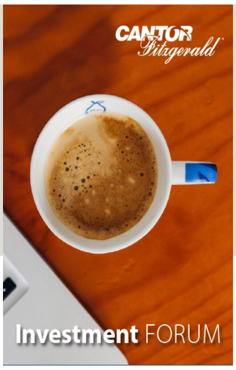

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SAP: SAP is a software corporation that makes enterprise software
Smurfit Kappa: Smurfit Kappa manufactures paper packaging products
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Engie: Engie is a global energy and services utility company
FedEx: 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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