Weekly Trader

Upcoming Market Opportunities and Events

Monday, 19th July 2021

Key Themes This Week

The Week Ahead
Equity markets struggled for direction last week and finished the week largely unchanged for the second week running. While this relative inertia in price action can be partly explained by the traditional seasonally lower market volumes, there are other factors at play which also explain this sideways move.

Firstly, mixed economic data prints in the form of better US Retail Sales and Empire Manufacturing data which were off-set by weaker Manufacturing and Industrial numbers from the US as well a Q2 GDP from China which was slightly behind expectations, all fed in to the 'peak growth' narrative which has taken over from the focus on higher inflation which dominated markets until recently.

Secondly, the US Q2 earnings season got of to an underwhelming start. While the numbers released from the major US banks last week were broadly in line, pressure on Net Interest Margins as a result of lower bond yields and on Net Interest Income as a result of slower loan growth, saw the majority of the banks trade lower post-results. While the bulk of the earnings season is still ahead of us, the risk is that with expectations so high following consistent earnings upgrades during the quarter, any earnings misses are likely to be received negatively by the market.

Thirdly, market breadth has deteriorated in recent weeks with only 51% of S&P 500 stocks trading above their 50 day moving average. Such a number would suggest that markets will struggle to move much higher in the short term. While we are not suggesting that markets overall will move significantly lower in the coming weeks, the risk is that we will see a modest drift lower which will provide a better entry level for our preferred Growth focused names.

Finally, the Federal Reserve remains a key focus for markets. In recent weeks the battle between the doves and the hawks on the FOMC has intensified suggesting that the next policy meeting on 28th July could see less policy unanimity than has been the case heretofore. While Fed Chair Powell continues to re-iterate 'a steady as she goes' policy strategy, the increase in members calling for a tightening in policy measures add a significant degree of uncertainty to the next policy statement by the Fed.

Despite the more cautious tone to this weeks commentary, we remain constructive on risk assets over the medium term, but with the S&P 500 now 100% above its March 2020 lows, market valuations looking somewhat elevated and the ongoing risk of Delta variant economic disruption, we prefer to wait for some market weakness before adding to risk asset exposure.

In this weeks Trader we include comments on **DCC** following a positive trading update last week, mining group **Rio Tinto** on valuation grounds, and **Grafton Group** which is poised to be in a net cash position in the coming quarters following its recent corporate activity. We also include the regular weekly comment on the **MIM Multi-Asset Range** of funds.

Major Markets Last Week

	Value	Change	% Move
Dow	34,688	-182.31	-0.52%
S&P	4,327	-42.39	-0.97%
Nasdaq	14,427	-274.68	-1.87%
MSCI UK	16,187	-263.72	-1.60%
DAX	15,540	-147.62	-0.94%
ISEQ	8,051	-142.60	-1.74%
Nikkei	27,653	-916.28	-3.21%
Hang Seng	27,529	13.66	0.05%
STOXX 600	455	-2.93	-0.64%
Brent Oil	72.85	-2.31	-3.07%
Crude Oil	71.12	-2.98	-4.02%
Gold	1,805	-1.35	-0.07%
Silver	25.40	-0.80	-3.05%
Copper	428.25	-3.35	-0.78%
Euro/USD	1.1801	-0.01	-0.51%
Euro/GBP	0.8580	0.00	0.43%
GBP/USD	1.3755	-0.01	-0.92%

	Value	Change
German 10 Year	-0.36%	-0.07
UK 10 Year	0.63%	-0.03
US 10 Year	1.29%	-0.08
Irish 10 Year	0.01%	-0.08
Spain 10 Year	0.28%	-0.06
Italy 10 Year	0.70%	-0.04
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

Grafton Group plc

Closing Price: £11.89

Key Metrics	2021e	2022e	2023e
Revenue (£'Mn)	2389.2	2572.6	2684.8
EPS (£)	0.72	0.73	0.75
Price/ Earnings	16.55x	16.22x	15.76x
Div Yield	1.76%	1.86%	1.92%

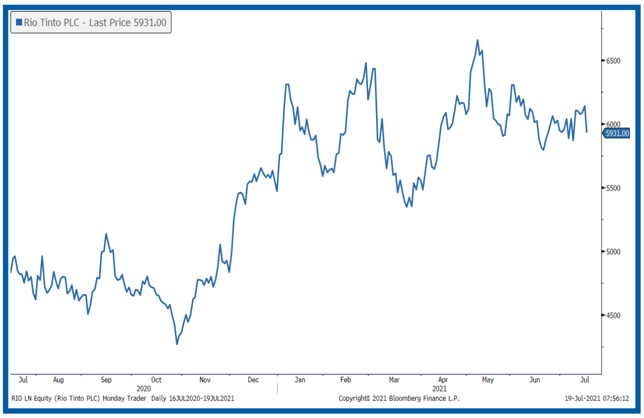
Total Return	1 Mth	3 Mth	1 Year
GFTU LN	9.18%	11.12%	79.16%

Source: All data & charts from Bloomberg & CFI

- The start of July has been a busy period for Grafton, the importance of which we believe has not yet been fully realised by the market. Firstly, the Group announced that it has agreed to sell its low margin Traditional Merchanting Business in Great Britain for an enterprise value of £520m. Grafton will retain freehold properties with development potential that have a market value of circa £25m. The deal is expected to close by the end of Q122.This was followed a week later with the issue of a solid pre-H121 trading update, noting that the strong revenue growth trends that developed in March and April were sustained in May and June, led by Woodies in Ireland and Selco in the UK. Management concurrently upgraded its FY21 adjusted operating profit guidance to £240m, in doing so noting that consensus was already at £243m.
- The three catalysts that we believe the market still has to fully appreciate are firstly a material expansion of margins in the remaining Grafton business. Secondly, given a management team that has consistently demonstrated strong capital discipline, the potential upside from earnings-enhancing acquisitions from H122 onwards. Thirdly, in a scenario where there is no -post-deal corporate action, we forecast that Grafton could end FY22 with £470m in cash, a portion of which, we believe could be returned to shareholders in special dividends and/or share buybacks.
- Despite the upside potential from the ongoing disposal, Grafton's share price has continued to track sideways in the 1100p to 1250p range that it has been in for almost three months. At 16.7x FY21 P/E and 10.0x EV/EBITDA, the stock is trading at a slight premium to its peers and 10 -year averages. That said, we believe that the disposal of low margin businesses should drive a rerating of the stock. As such, we reiterate our Buy recommendation, with a dividend yielding 2.3% giving further comfort.

Rio Tinto plc

Closing Price: £59.31



Key Metrics	2022e	2023e	2024e
Revenue ($'Mn)	65715.1	54316.4	46532.8
EPS ($)	15.03	10.77	7.65
Price/ Earnings	5.42x	7.57x	10.66x
Div Yield	14.16%	9.43%	6.63%

Total Return	1 Mth	3 Mth	1 Year
RIO LN	2.10%	-2.59%	29.13%

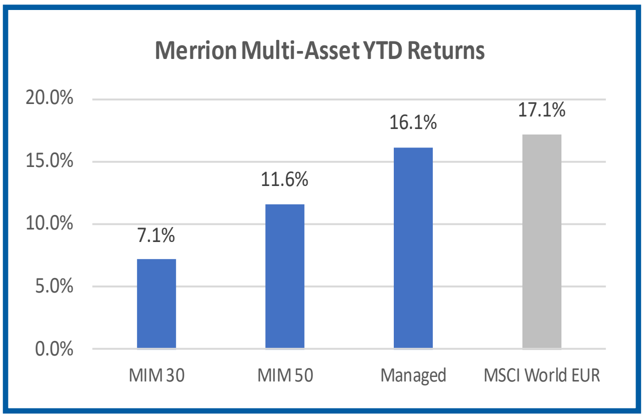
Source: All data & charts from Bloomberg & CFI

- In its Q221 production update issued last week, Rio Tinto reported a decline in production and shipments across the majority of its commodity lines. This was, however, already expected given bad weather, well flagged labour shortages and production delays. It is expected that this decline will be more than balanced by realised prices when the company reports its results on the 28th of July. Core ore realised $183 per dry metric tonne in Q221 and $168pdmt in H121, a considerable lift on $85pdmt realised in H120. Costs have increased over the quarter but not to an extent that will impact the potential for considerable margin expansion. The stock remained little changed in both the UK and Australian markets after the release.
- Rio continues to benefit from favourable trading conditions in its core market, China, with management noting that steel demand is up 5% year on year in the first half, with the construction and automotive sectors performing strongly. It is also benefiting from price increases in its core product (iron ore), where prices are up 50% over the last 12 months. Along with copper (+50%) and tin (+95%), commodity prices are being driven up as the market anticipates a rebound in activity with the global economy emerging from the grips of the pandemic, at a time when production levels have dipped.
- Rio Tinto's share price has trade sideways over the past two, at or around the 6000p level. While there is little in the latest product report to change this trajectory over the short-term, with margin expansion the focus of H121 numbers, we believe surprise to the upside could provide a fillip to the stock. At 5.6x FY21 P/E and 3.4x EV/EBITDA, the stock is trading at an 18% discount to its peers and over 40% discount to its 10-year average. As our unchanged peer comparative and DCF-derived price target of 6990p implies 14% upside, supported by a well-covered dividend currently yielding 5.6%, we re-iterate our Buy recommendation.

Opportunities this week

CFI Research Team

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



Total Return	YTD
MIM 30	7.1%
MIM 50	11.6%
Managed	16.1%
MSCI World (EUR)	17.1%

Returns as of the 14/07/2021

- 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 enter into the second half of 2021 slightly below their mid point at an asset allocation level, mainly driven by short positions in commodities reducing the overall growth asset exposure of the funds.
- The teams mantra for much of Q2 was about a rotation out of cyclical, low quality stocks as the global economic and earnings cycle had already peaked on the reopening, and into high quality and growth names.
- The team have been expecting the move lower/stabilisation in bond yields to change the leadership in the equity market, and over the last couple of weeks growth and quality companies have reasserted themselves as the equity leaders.
- Despite the uncertainties presented by Covid-19 and the new variants, 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.

DCC plc

Closing Price: £60.30

Key Metrics	2022e	2023e	2024e
Revenue (£'Mn)	14280.1	14580.7	14858.8
EPS (£)	4.12	4.30	4.49
Price/ Earnings	14.65x	14.03x	13.44x
Div Yield	2.83%	2.99%	3.18%

Total Return	1 Mth	3 Mth	1 Year
DCC LN	2.20%	-4.90%	-12.59%

Source: All data & charts from Bloomberg & CFI

- Last week, prior to its AGM, DCC issued an upbeat but qualitative Q122 business update, noting very strong growth in its seasonally less significant quarter. The company notes that operating profit was well ahead of the prior year and "modestly" ahead of expectations, driven by very strong organic profit growth in DCC Healthcare and DCC Technology. DCC LPG delivered good operating profit growth in the first quarter. As anticipated, volumes recovered relative to the first quarter of the prior year due to increased demand from commercial and industrial customers, particularly in Britain. DCC Retail & Oil also recorded good operating profit growth. The gradual re-opening of economies led to volume growth with transport and commercial customers.
- Looking forward, DCC expects that FY22 will be another year of strong operating profit growth and continued development activity. On development, in Q122 DCC completed a number of bolt-on acquisitions, including DCC Healthcare's first primary care bolt-on acquisition in Continental Europe following its initial market entry through the acquisition of Wörner in April 2021. DCC has also completed the previously announced acquisitions of Primagaz by DCC LPG, Jones Oil by DCC Retail & Oil and Azenn by DCC Technology since the FY21 results announcement. A steady performer, in FY22, the market is looking for DCC to grow earnings by 6% from a similar increase in revenue, but on previous form, we expect both will be supplemented by bolt-on acquisitions over the coming six months.
- Having hit pre-pandemic levels in late March, the share price has subsequently drifted to current levels, trading at or around 6000p for the past three months. The stock is trading at 14.7x FY22 P/E and 8.4x EV/ EBITDA, a 13% discount to peers and 20% discount to its 10-year average. We believe that the tenor of this business update, following strong FY21 results should see upward momentum resume and re-iterate our Buy recommendation, our 7545p price target implying a 28% upside.

This Weeks Market Events

Monday	Tuesday	Wednesday	Thursday	Friday
Corporate	**Corporate**	**Corporate**	**Corporate**	**Corporate**
Assa Abloy AB Orion Oyj International Business Machine	Volvo AB Electrolux AB Kone Oyj Philip Morris International In UBS Group AG Netflix Inc Chipotle Mexican Grill Inc United Airlines Holdings Inc	Nordea Bank Abp Akzo Nobel NV Johnson & Johnson SAP SE Novartis AG Coca-Cola Co Northern Trust Corp Nasdaq Inc Baker Hughes Co ASML Holding NV Daimler AG Verizon Communications Inc Kinder Morgan Inc Texas Instruments Inc	Givaudan SA AT&T Inc Domino's Pizza Inc Abbott Laboratories Roche Holding AG Freeport-McMoRan Inc Newmont Corp Biogen Inc American Airlines Group Inc Southwest Airlines Co Intel Corp Twitter Inc Snap-on Inc	Danske Bank A/S IG Group Holdings PLC Schindler Holding AG American Express Co NextEra Energy Inc Honeywell International Inc Kimberly-Clark Corp
Economic	**Economic**	**Economic**	**Economic**	**Economic**
US NAHB Homebuilder Sentiment	Japanese CPI German Producer Prices US Housing Starts	Japanese Trade Balance	ECB Refi Rate ECB Press Conference US Initial Jobless Claims US Existing Home Sales EU Flash Consumer Confidence	UK Gfk Consumer Confidence UK Retail Sales EU Flash Markit Composite UK Flash Markit Composite US Flash Markit Composite

Cantor Core Portfolio - In Detail

Performance YTD	%
Portfolio	10.9%
Benchmark	17.9%
Relative Performance	-7.0%
P/E Ratio	26.21x
Dividend Yield	2.4%
ESMA Rating	6
Beta	1.02

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	4.02%
USD	3.64%

Benchmark

Weighted Average Contribution

Index	Currency	PE	Outlook	Weighting	Total Return Local	Weekly Return	Price	Contribution
STOXX Europe 600	EUR	39	Neutral	60%	16.4%	-0.6%	455	9.8%
S&P 500	USD	28	Neutral	40%	16.1%	-1.0%	4327	8.1%

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%	-0.7%	0.7%	56.46	0.2%
Amazon.Com Inc	USD	0.0%	H	Consumer Discretionary	6.67%	9.7%	-3.9%	3573.63	0.9%
JPMorgan Emerging Markets Trust	GBp	1.3%	H	Emerging Markets	6.67%	2.1%	0.2%	1.33	0.4%
Allianz Se	EUR	4.8%	H	Financials	6.67%	8.8%	-1.5%	208.95	0.6%
Sanofi	EUR	3.7%	H	Health Care	6.67%	15.9%	0.7%	87.87	1.1%
Vinci Sa	EUR	2.5%	H	Industrials	6.67%	12.2%	-2.8%	89.19	0.8%
Siemens Gamesa Renewable Energy	EUR	0.1%	H	Industrials	6.67%	-33.5%	-18.2%	22.02	-2.2%
Fedex Corp	USD	0.9%	H	Industrials	6.67%	13.2%	-1.3%	292.49	1.1%
Ryanair Holdings Plc	EUR	0.0%	H	Industrials	6.67%	-3.5%	-3.2%	15.68	-0.2%
Paypal Holdings Inc	USD	0.0%	H	Information Technology	6.67%	25.8%	-1.9%	294.63	2.0%
Microsoft Corp	USD	0.8%	H	Information Technology	6.67%	26.8%	1.0%	280.75	2.1%
Rio Tinto Plc	GBP	6.5%	H	Materials	6.67%	13.8%	-2.9%	5931.00	1.3%
Smurfit Kappa Group Plc	EUR	2.6%	H	Materials	6.67%	21.6%	-2.4%	45.29	1.4%
CRH Plc	EUR	2.4%	H	Materials	6.67%	24.9%	-1.7%	41.67	1.7%
Engie	EUR	6.1%	H	Utilities	6.67%	-3.3%	0.1%	11.62	-0.2%

All data taken from Bloomberg up until 16/07/2021.

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

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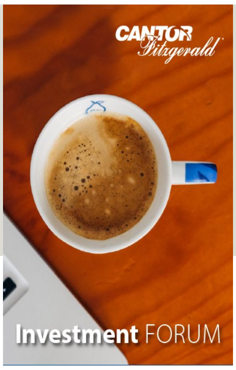

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SAP: SAP is a software corporation that makes enterprise software
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VINCI SA: VINCI is a global player in concessions and construction with expertise in building, civil, hydraulic, and electrical engineering
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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
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