

March 2019 Newsletter

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Traditional Values



COLLINS SARRI STATHAM
INVESTMENTS

Themes from March

PM Theresa May failed to secure the EU Withdrawal Bill on its third reading. The PM was 58 seats away from securing the passage of her flagship legislation.

Sterling struggled to hold levels above US\$1.32 as Brexit uncertainty and speculation that the Brexit impasse could lead to a General Election persisted.

Imperial Brands is on track to meet its 1% to 4% revenue growth target with EPS growth in its 4%-8% target range.

TUI AG said its grounded Boeing 737 Max aircraft will result in an exceptional charge of up to €200m.

Cromwell Corp has approached property developer RDI REIT however talks between the two boards are at a preliminary stage.

AstraZeneca raised US\$3.5bn via an equity issue at 6050p per share to fund a breast cancer collaboration with Daiichi Sangko. The placing was the largest fund raising on the LSE year to date and came as a surprise.

Inmarsat agreed to be acquired by a consortium led by Apax Partners for US\$7.21 per share. The deal comes a year after the same board rejected a 542p cash offer from Echostar.

Wow Air collapsed after talks with investors failed to secure further financing.

Forthcoming UK Events

1

APR

Markit / CIPS Manufacturing PMI

2

APR

5 Year Treasury Gilt Auction

3

APR

Markit/ CIPS UK Services PMI

4

APR

UK New Car Sales

5

APR

Halifax House Price Index/ Labour productivity

9

APR

10 Year Treasury Gilt Auction

10

APR

UK Balance of Trade/ UK GDP February/ UK Industrial Production

16

APR

January UK Unemployment Rate/ Average Earnings

17

APR

UK Core Inflation/ PPI Core Output

18

APR

UK Retail Sales

24

APR

UK Public Sector Net Borrowing

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Performance of World Markets (29/3/2019)

North America	Value	Change	+/- (1M)%	+/- (1YR)%
DOW JONES (Close)	25,928.68	12.68	0.00	9.70
S&P 500 (Close)	2,834.40	49.91	1.80	9.80
NASDAQ (Close)	7,729.32	196.79	2.60	12.50

Europe/UK	Value	Change	+/- (1M)%	+/- (1YR)%
UK 100 INDEX (Close)	7,279.19	204.46	2.90	3.50
CAC 40 INDEX (Close)	5,350.53	74.52	1.40	3.90
EUROSTOXX 50 (Close)	3,344.10	45.84	1.40	1.30

Asia/Far East	Value	Change	+/- (1M)%	+/- (1YR)%
SHANGHAI COMPOSITE (Close)	3,090.76	149.81	14.60	13.20
NIKKEI-225 (Close)	21,191.51	-193.65	-1.40	-0.90
HANG SENG (Close)	29,051.36	418.18	1.50	-3.70

United Kingdom

China/Japan

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UK blue chips looked past Brexit helped by the EU's flexibility in extending the deadline. However the intractability of securing support for the EU Withdrawal Bill has led to concern the UK will crash out on the 12th April 2019 or see further uncertainty due to a General Election.

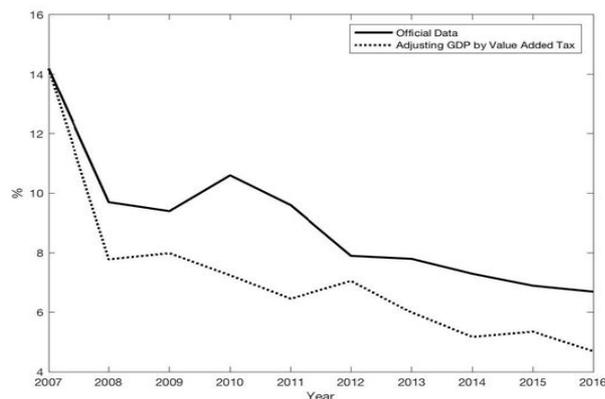
UK markets appear to be ignoring the risk of a General Election and the possibility of a Labour government led by a hard left cabinet under Jeremy Corbyn that would lift corporation tax.

This demonstrative decoupling of UK blue chips from the UK economy/ outlook is to some extent to be expected given the composition of the index and its population of global multi-nationals. For many, the UK's stumbles and upheavals are of little short term relevance to profits.

M&A activity has been strong in the mid-caps with both Inmarsat and RDI REIT receiving takeover approaches. Even perennial acquirer, Mike Ashley made a 5p per share offer for Debenhams (lasting one day). Takeover rumours abound about approaches for Convatec.

A political clampdown in China ahead of the 30th anniversary of the Tiananmen Square seems underway after President Xi gave a speech warning officials against "erroneous thoughts". The move comes as international criticism grows on the issue of China's detention of Uighur Muslims in camps.

A recent study by the Chinese University of Hong Kong and the University of Chicago claimed China over-reported its GDP growth rate by an average of 1.7% per annum from 2008 to 2016. This was due to local officials over-estimating local statistics to enhance their promotion prospects.



From the conference paper "A Forensic Examination of China's National Accounts"

source: Brookings Institute

Europe

Auto makers have flagged a tougher 2019. BMW Q3 – its PBT declined 26.3% to €1.84bn dragged down by a large decline in its automotive EBIT margin to 4.4% from 8.6%. EPS fell to €2.09 down 24.3% clearly missing estimates.

On the flip side Porsche AG hiked its dividend by 26% reporting €3.5bn group profit for 2018 up 6%. For 2019 it expects group profit of €3.4bn to €4.4bn. Porsche invested over €400m in Volkswagen shares over 2018 as well as further electrification related investments.

Shares in Bayer AG fell from €70.55 to €57.40 over March due to escalating US claims against its weedkiller product "Roundup" that plaintiffs have proved contains glyphosate which is carcinogenic. There are some 11,200 "Roundup" related lawsuits going to trial in the USA. The unquantifiable nature of legal liabilities has undermined confidence in Bayer AG.

United States

Whilst President Trump wants a quick deal in the Sino-US talks, he pointed out that US/ EU trade negotiations are "very tough". He renewed threats to impose US tariffs on EU auto imports in the event of a "no deal".

Excitement over Apple Inc's press conference on the 25th March reached fever pitch with the shares rising from \$172 to \$195 ahead of the showcasing event that discussed an Apple credit card, i-News subscription services and a streaming video offer. Apple's recovery from lows of \$142 is based on the conviction that the company will significantly boost service revenues over 2019 and 2020.

source: www.google.com/search?q=Apple

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The European Commission has said it has completed its “no deal” preparations and warned it is increasingly likely the UK will crash out.

189.95 USD +1.23 (0.65%) ↑

Closed: 1 Apr, 07:03 GMT-4 - Disclaimer
Pre-market 191.65 +1.70 (0.89%)



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Key to Material Interests:

Please be aware that the following disclosures of Material Interests are relevant to this research note:

Astra Zeneca	Relevant disclosures: <2>
TUI AG	Relevant disclosures: <1,2>
Imperial Brands	Relevant disclosures: <2>
RDI REIT	Relevant disclosures: <2>
Debenhams	Relevant disclosures: <2>
Inmarsat	Relevant disclosures: <2>
Convatec	Relevant disclosures: <2>
BMW AG	Relevant disclosures: <2>
Porsche AG	Relevant disclosures: <2>
Bayer AG	Relevant disclosures: <2>
Apple Inc	Relevant disclosures: <2>

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