

Tuesday, 29 June 2021

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Top Call

Europe - Sovereign Debt Update - French Regional Elections' Key Takeaway: Voter Apathy

Western Europe

France: Election apathy, pension reform. Germany: polls, travel restrictions, wage costs, inflation. Spain: pension reform. UK: new health sec, trade.

Giada Giani | Christian Schulz | Guillaume Menuet | Benjamin Nabarro

European Airports - Gravitational Pull

Western Europe | Airports

Top-down driven recovery plays have pushed airport stocks back to their pre-pandemic trading range. And yet when we look at fundamentals, we see little reflection of structural loss of value (traffic), nor reflection of looming regulatory risks. In our view, likely cuts to allowed returns and inability to retain cost savings permanently mean a set of fundamentals that remain challenged for airports and increasingly dislocated from the share prices. We are turning more negative on the sector and downgrade ADP and Zurich to Sell and reiterate our Sell on Fraport.

Jenny Ping

Company

British American Tobacco PLC (BATS.L) - H1 should demonstrate strong New Categories sales momentum

Western Europe | Tobacco | Buy

BAT will report H1 21 results for the six months to June 30th on July 28th. We expect the most important driver for the shares will be NGP sales momentum, given the high investment this year, and any changes to FY guidance. We have a Buy on BAT because we think it has the best balance between growing sales and profit in its traditional tobacco business, as well as growing sales in New Categories. We continue to think the shares are undervalued. We will closely be watching PM's results on July 20th for trends in heated tobacco and in emerging markets.

Jemima Benstead, CFA | Simon Hales | Ravi Sharma

Must Read

[Global Economic Outlook & Strategy - How the global investment cycle will lose its China-dependence](#)

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Rémy Cointreau (RCOP.PA) - Recent under-performance overdone. Shares likely to bounce into Q1 result

Western Europe | Beverages | Neutral

Rémy will report Q1 22E sales for the three months to June 30th on July 20th. Although the shares have out-performed Staples over the last 12mths, a more cautious than expected FY22E outlook from management at the early-June FY21 result has prompted some under-performance of late. However with: 1) encouraging reopening trends in US/Europe underpinning likely robust depletions through Q1; 2) technical factors - destocked comp in Asia and stock replenishment in the US - supporting OSG; and 3) a share buyback limiting downside, the recent stock price weakness looks overdone. Admittedly, it may be too early for management to raise FY22E "mid-teens" organic EBIT guidance but we struggle to see how this won't be beaten over-time. Moreover, with a PE relative premium to Staples well-below peak, the risk/reward is skewing favourably. We maintain our Neutral rating but open a POSITIVE Catalyst Watch ahead of the Q1 sales result.

Simon Hales | Jemima Benstead, CFA | Ravi Sharma

Unilever PLC (ULVR.L) - Are we awaiting another margin conversation?

Western Europe | Food Manufacturers | Buy

While downside risk to H1 numbers may be now more limited given well-flagged headwinds, we think that meeting FY expectations will demand some clarification on the margin building blocks in H2. Our new analysis suggests that stepping cost savings may be necessary to avoid an optically damaging cut to adspend in H2. Relative valuation remains low enough to offer an option on EM recovery and portfolio rotation, but we think H1 will be a necessary step to de-risk consensus.

Cedric Besnard

Ultra Electronics (ULE.L) - Cobham/Advent Multiple Scenario Implies 2,900p

Western Europe | Aerospace & Defense | Neutral

With the conflicting messages from Ultra Electronics and Cobham, we run a back-of-the-envelope scenario analysis, applying Cobham takeout multiples (~15-16x EV/EBITA) on Ultra Electronics, which gets us to an equity value of ~£2bn or 2,900p per share, i.e. a ~30% premium to the current share price. This has no bearing on our forecasts, and we maintain our 2,200p target price and Neutral rating.

Pavan Daswani | Charles J Armitage

Industry

Strategy & Economics

European Economics - Riksbank - The Economy is Too Good to Ignore

Western Europe

The Riksbank will likely be the next central bank to signal the first step towards exiting the pandemic monetary policy stimulus. We expect the rate path to move slightly above 0% from end-2023, but asset purchases to continue as planned (already embedding some tapering in 2H-21). Both GDP and inflation are too strong to dismiss and rising financial stability concerns add further pressure on the Swedish central bank to act.

Giada Giani

Academic Research Digest - June 2021

Western Europe

In our 148th edition of the ARD, we present reviews of recent academic research that offer new perspectives on topics including predictable price pressure, non-stationarity, cash flow and discount rate expectations, green sentiment and ESG ETFs volatility clustering amongst others.

Chris Montagu | David T Chew | Josie Gerken | Kim D Jensen, CFA | Pier Procacci

Global Asset Allocation - Video Summary for Global Asset Allocation: All Taper - No Tantrum - June 2021

Global

With this edition we revamp our asset allocation product, defining a new investable universe and a new way to allocate risk. We remain overweight equities and commodities relative to government bonds and credit. Peak US growth and potential Fed tapering does not deter us from our equity overweight, where we express a preference for both the US and some more cyclical markets. Historically, when growth has peaked, but remains overall well supported, US equities tend to perform well. Equally, the SPX sailed through the 2013 taper tantrum relatively unperturbed. We keep a reduced duration underweight. If the 10y UST is to trade materially higher, we would expect that to happen in the coming quarter, given that in Q4, attention may turn towards a 2022 fiscal cliff and a potentially more stagnant growth and inflation backdrop. We keep a reduced commodity overweight, now focused on energy, and remain underweight credit.

Dirk Willer | Jamie Fahy, CFA | Amir Amin | Skylar D Montgomery Koning | Yasmin Younes

Global Economic Outlook & Strategy - How the global investment cycle will lose its China-dependence

Global

The global investment cycle became highly dependent on China in the decade after the Great Financial Crisis, thanks to credit-fuelled infrastructure spending in China, and a bias towards austerity in the West. Yet this is likely to change, not so much because China's economy will become less investment-oriented, but rather because others will be investing more, both in the private and public sectors.

A broader base for the global investment cycle might be considered good news, because the cycle is particularly important in explaining the environment for global trade and for commodities demand.

Yet it is not obvious trade will benefit from broader-based investment spending, since some of the drive to increase public investment spending is aimed at improving 'supply-chain resilience' against a background where protectionism has grown rapidly. So, the flipside of a global investment cycle less dependent on China is one that is less friendly to global trade.

David Lubin

Commodities

Commodities Flows - Still a rosy outlook for commodities in 2H, with crude oil buoyant

Global

Commodities should continue to perform—if not outperform—in 2H as macro momentum, economic recovery, and ongoing fiscal stimulus buoy the rebound despite a hawkish June FOMC and more wobbly EM picture in the short term.

Aakash Doshi | Kenny Hu, CFA | Tracy Xian Liao | Francesco Martoccia | Eric G Lee

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Appendix A-1

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