

# MARKET PREVIEW

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## Brexit, UK inflation the main focus but retail and housebuilder updates continue to flow

There is no getting away from it, Brexit will be the dominant word in the coming week given that the delayed House of Common's vote on Teresa May's controversial European Union exit deal should finally come on Tuesday.

Originally the vote was scheduled for December 11 but the prime minister postponed it after admitting she did not believe enough MPs would back her Brexit deal.

But even with that delay, the UK continues to face the prospect of a 'hard Brexit' as MPs are still widely expected to reject May's plan.

Many lawmakers, including dozens of May's own backbenchers, have publicly said they would not support the deal over concerns about a backstop designed to ensure there was no return to a hard border for Ireland if a comprehensive free trade deal cannot be signed before the end of 2020.

Thus, with the UK set to leave the EU on March 29 and May's Brexit deal on course to be defeated by a heavy margin, the risk of no-deal scenario is looking more likely.

Economists at ING expects the UK to apply for an extension to Article 50 if parliament rejects the deal.

"Nobody really knows exactly where the next couple of weeks will take us, but time is running out - not only for MPs to find an option that commands a majority in Parliament, but also to pass a raft of legislation in time for Brexit day," ING said.

"While the UK government has so far ruled it out, it looks increasingly likely that the 29 March Brexit date will need to be pushed back. The most likely way of doing this would be for the UK to apply for an extension to the two-year Article 50 negotiating period."

### Brexit impact on UK data eyed

With data on Friday showing the UK growth rate in the three months to November was the weakest in six months at just 0.3%, another batch of data will also be key in the coming week, especially the latest inflation numbers.

The November UK consumer price index moderated to 2.3% as increases in the cost of transport, food, beverages and leisure slowed down.

And for December there are some expectations that inflation could head a little lower still as the fall in oil prices since the summer highs feed through to the pumps.

Meanwhile, the latest retail sales figures, due on Thursday, will be a crucial indicator of the health of the UK consumer and the wellbeing of the high street.

The November figures showed a bounce on the previous month, chiefly as a result of a strong Black Friday sales period.

### Share Information

#### MarketTopic Synopsis:

*Market Preview is published daily before trading kicks off, giving investors a roundup of macroeconomic and corporate news that is likely to move the markets along with the expected opening level of the major indices.*

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However, this could turn out to be to the detriment of December trading as a number of consumers could have brought their seasonal shopping forward into November.

The trading updates released since the start of the year from major retailers have given a mixed picture for Christmas, with online still gaining over the high street while food and groceries sales showed a better picture than general merchandise.

### Talking of retail trading updates

After the slew of Christmas trading statements from the High Street since the start of the year, there will still be more to come in the next five sessions although the pace slows slightly.

As always, discount clothing stores chain Primark will be front and centre when Associated British Foods plc (LON:ABF) publishes its first-quarter trading news on Thursday.

Investors will, of course, keep an eye out for any updates on the troubled sugar business, but how AB Foods' star asset performed over the all-important Christmas period will be the major focus.

The market has big concerns over the retail sector right now: November has widely been reported as the worst month for retailers in a long time and the 9.2% drop in store sales at Next PLC (LON:NXT) last month looks ominous.

Unlike Next, Primark doesn't have a thriving online business to fall back on, so the market will be hoping the low-cost clothes retailer can buck the trend like it has done before.

But December's update wasn't as bullish as they have been in the past, with ABF warning that trading had been "challenging". Still, bosses said they were confident in delivering another year of Primark profit growth and investors will want to see that that remains the case.

"We forecast 4% revenue growth for the first 16 weeks, in line with our FY19 estimate," said UBS in a note.

"Following the AGM update of 7 December, we expect Primark LFL of -2%, although like some peers there may have been a modest recovery into December. Total Primark sales are expected to be up 4%."

### Will Boohoo cry tears of joy or sorrow?

Online retailer Boohoo Group PLC (LON:BOO) last month rushed to reassure investors that its trading remained strong after its shares slumped in a sector-wide decline following a shock profit waning from rival ASOS plc (ASOS).

The company said it saw record Black Friday sales and "continues to trade comfortably in line with market expectations.

Investors will find out whether Boohoo's last statement rings true in a trading update for the four months to December 31, which is due to be released on Tuesday.

The Share Centre said investors will be looking closely at sales and any signs of discounting.

In September, Boohoo raised its revenue guidance for the year to growth between 38% and 43% from the 35% and 40% previously expected after record first-half sales and profits.

E-commerce retailers have performed better than most high street retailers recently as more consumers do their shopping online. ASOS proved that theory wrong, however, when it lowered its full year forecasts after weak trading in November.

### JD Sports gears up for first post-CFO update

Retailer JD Sports Fashion PLC (LON:JD.) is preparing to join the chorus of firm's updating on their Christmas sales in its first update since its chief financial officer Brian Small stood down at the end of October.

In terms of the numbers in its update on Monday, the group will be looking to avoid the gloomy trend in the sector and replicate its record earnings from the first half.

Profit before tax in the six months to August 4 came to £121.9m, up 19% compared to the same period a year ago. Revenue increased 35% to £1.8bn with like-for-like sales up 3%, supported by the US\$558m acquisition of US athleticwear firm Finish Line earlier this year and the opening of new stores across Europe and the Asia Pacific.

### **Games Workshop expected to (War) hammer home numbers**

Games Workshop PLC (LON:GAW) is likely to cause few surprises with its interims on Tuesday, having announced the headline numbers in early December.

One new bit of information, however, will be the firm's Christmas numbers which analysts at Peel Hunt are expecting to have a "continued positive theme".

"Our recent visit to Nottingham illustrated that the business is in good shape, with clear momentum in products and facilities. The additional capacity will be in production shortly and take total sales capacity up to £350m" the City broker said.

In last month's update the wargamer and owner of the Warhammer franchise said it expected sales to be around £124m in the first six months of 2018/19 with operating profit likely to come in at some £41m - in line with its view.

### **CEO search to be key for Persimmon**

Away from the retail frenzy, housebuilders will also be a focus with updates due from both Persimmon PLC (LON:PSN) and Bovis Homes PLC (LON:BVS).

Blue chip Persimmon will provide its first update since the firm announced on 7 November 2018 that its chief executive Jeff Fairburn would be quitting the housebuilder following a backlash over his £75m bonus package.

Fairburn stepped down at the end of 2018 with managing director David Jenkinson appointed as Persimmon's interim chief executive until a permanent replacement is found.

The company said it had requested Fairburn resign as it believed the "distraction" around his pay continued to have a "negative impact on the reputation of the business" and on his ability to continue in his role.

In a separate third-quarter trading update, released at the same time, Persimmon said its private sales had risen by 3% year-on-year in the period from 1 July to 6 November 2018 as low borrowing costs continued to support demand.

The UK biggest housebuilder also said it was fully sold for the current year and had £987m of forward sales reserved beyond 2018, up 9% on the same point last year.

### **Cash, Brexit and customers key for Bovis Homes**

Bovis Homes will issue its latest update on Wednesday. In a preview, Sophie Lund-Yates, Equity Analyst, Hargreaves Lansdown said: "In November, Bovis said it was on track to hit medium-term targets. Those included realising £180m of additional cash flow by December 2018 and achieving 4,000 completions per year.

"The cash should arrive on schedule, and it's likely completion numbers are on course too."

She added: "The group can't avoid the Brexit question though, and uncertainties mean less buyers. So far Bovis has

managed to keep sales in line with 2017, although with more political noise than ever there's a chance sales have dipped this quarter.

"The final thing to keep an eye on is customer satisfaction. Bovis suffered in the past after the quality of some homes were very publically slated. It's managed a come-back, with satisfaction scores now scoring above 80% - but its rivals are achieving around 90%, so there's room for improvement."

### **Weaker UK business confidence fails to bring down recruiters**

Two staffing group - Hays PLC (LON:HAS) and PageGroup PLC (LON:PAGE) - will also continue their sector's update season following on from recent cautious news from Robert Walters PLC (RWA).

It is an uncertain time for UK employers with Brexit fast approaching and MPs widely expected to vote down Theresa May's deal on Tuesday.

Hays releases its second-quarter trading update on Tuesday, the same day as the House of Common's Brexit vote,

UBS analysts expect the company to post a 9% increase in like-for-like gross profit, in line with the previous quarter's growth.

"This will be boosted by a 1% working day impact in Germany so therefore represents a slight deceleration vs. 9% in 1Q," UBS said.

"We still expect Germany to report strong growth at +15% (stable sequentially on an underlying basis) and expect the UK to also be stable sequentially at +3%."

In the first quarter, the group managed to deliver a 3% rise in like-for-like gross profit in the UK and Ireland where business confidence has fallen amid an unclear economic and political outlook. The UK and Ireland accounts for 24% of the company's total gross profit but Germany is its biggest unit, representing 27% of the total.

Germany generated a 13% increase in like-for-like gross profit in the first quarter, slowing from the previous quarter's 16% growth.

### **On to another PageGroup**

Rival PageGroup reports its fourth-quarter trading update on Monday.

The company has seen a recent recovery in the UK jobs market with third quarter like-for-like gross profit rising 0.8% after a 1.9% drop in the second quarter.

The UK makes up 17% of total gross profit, which jumped 19.7% on a like-for-like basis in the period, led by growth in its largest market - the European, Middle East and Africa region.

For the fourth quarter, UBS predicts like-for-like growth in gross profit will slow to 11% due to tougher comparatives.

"Growth should still generally remain solid across with the board with momentum in Europe still remaining solid at +16% (vs. +19% in 3Q)," UBS said.

"We also see some tentative signs of growth in the UK at +2% (+1% in 3Q) but this is largely due to easier comparatives.

"Given (still) strong trading trends at peers, the de-rating since the 3Q and lower unemployment/high job churn in key markets we generally see upside risks and do not rule out a small profit upgrade to FY consensus close to £158mln."

### First look at a caffeine-free Whitbread

Among other blue-chip updates due, Whitbread plc (LON:WTB) will be keenly eyed, with the firm now a pure hotelier having completed the sale of its Costa coffee business to Coca Cola at the start of the year.

Most of the proceeds from that US\$3.9bn deal will go back to shareholders through a buyback scheme due to start after Thursday's third-quarter trading statement.

In the update, investors will hope to see a pick-up in occupancy levels at Whitbread's low-cost Premier Inn hotel chain, with numbers having dipped in the first half.

"Weaker consumer demand" was cited as the reason that like-for-like sales only inched 0.2% higher in the period, and the company warned that the unremarkable performance so far could mean this year's profits are lower than previous years.

In October, Whitbread said it was pressing ahead with plans to grow its number of rooms by 15% by the end of next year, but the market will be looking to see if the recent slowdown has changed that.

### More of the same from Experian

The end of last year proved to be a busy one for FTSE 100-listed credit score provider Experian PLC (LON:EXPN), which has gradually rebuilt its share price following October's global equities sell-off.

Revenue rose 7% in the first half of its financial year, enough for the FTSE 100 group to lift its profit guidance slightly and hike its interim dividend.

Those results only came out a couple of months ago, but a lot has happened since then. The company most recently struck a £200m deal to buy Compuscan - a leading credit bureau and information services business in Africa.

The African expansion move came just days after the UK competition watchdog raised concerns over Experian's proposed £275m takeover of US credit score rival ClearScore, a final decision for which is due shortly.

The firm will issue a trading update on Thursday, and in a preview UBS analysts said: "We expect organic growth to continue at +8%, and for Experian to reiterate guidance for accelerating operating leverage."

They added: "After raising growth guidance at H1 results, we have seen no deterioration in underlying credit market data while we believe Experian's new product portfolio continues to drive above-market growth."

### Cineworld hops for strong Christmas with slew of big releases

On the second line, Cineworld Group plc (LON:CINE) will be hoping to report a strong Christmas in a trading update on Wednesday boosted by a series of festive blockbusters.

Comic-book film Aquaman alongside Mary Poppins Returns, Bumblebee, and Spiderman: Into the Spiderverse will all be seen as potential money makers as the firm seeks to round off a strong performance for the first 11 months of the year.

In a trading update in November the chain reported that in the period from January 1 to November 11 total revenues had risen 11.6%, with its US, UK, and Rest of World (ROW) revenue segments growing 13.2%, 7.1%, and 6.6% respectively.

### Production and finances the focus for Tullow Oil

Finally, oil companies with trading updates in the diary will no doubt be thankful for the timing of the crude market's

recovery through the early weeks of 2019 - especially those like Tullow Oil plc (LON:TLW) which are balancing cash generation, debt repayment and investments in future growth.

When Tullow updates the market on Wednesday the obvious talking points will likely be those around production and finances, though commentary around growth projects will, for some, rank as a close second.

The prospects look good according to RBC Capital Markets which earlier this week upgraded its view of Tullow to 'outperform' whilst at the same time sounding caution over other sector peers.

"Although management has a tight rein on the company's finances, Tullow's portfolio offers the potential in 2019 for development- and exploration-led upside," RBC analyst Al Stanton said in a note.

The analyst added: "We expect Tullow to generate \$0.9bn of post-tax cash flow in 2019; management has reined in spending and, as a result, we expect the company to generate ~\$0.4bn of free cash flow.

"Indeed, we estimate that Tullow's 2019E spending of \$0.5m is covered down below \$55/bbl.

"Moreover, management has rescheduled its debt-repayment obligations and, as a result, it has few near-term commitments."

RBC has a new 300p price target for Tullow, up from 275p.

### **Significant announcements expected for week ending 18 January:**

#### **Monday January 14**

**Trading updates:** PageGroup PLC (LON:PAGE), JD Sports Fashion PLC (LON:JD.), Revolution Bars PLC (LON:RBG), Dechra Pharmaceuticals PLC (LON:DPH), Tarsus Group PLC (LON:TRS), XP Power PLC (LON:XPP)

**Economic data:** CBI quarterly financial services survey

#### **Tuesday January 15:**

**Trading updates:** Persimmon PLC (LON:PSN); ), Boohoo Group PLC (LON:BOO), Hays PLC (LON:HAS), Ashmore group (LON:ASHM), The Gym Group Plc (LON:GYM)

**Interims:** Games Workshop PLC (LON:GAW), Knights Group Holdings PLC (LON:KGH)

**Finals:** Elegant Hotels Group PLC (LON:EHG), Watkin Jones PLC (LON:WJG)

**Economic data:** US PPI data; NY Empire State manufacturing report

#### **Wednesday January 16:**

**Trading updates:** Bovis Homes PLC (LON:BVS), Tullow Oil plc (LON:TLW), Cineworld PLC (LON:CINE), Pearson plc (LON:PERSON), Diploma PLC (LON:DPLM), TheWorks.co.uk PLC (LON:WRKS)

**Interims:** 1PM PLC (LON:OPM)

**Economic data:** UK CPI, RPI, PPI, HPI inflation; US retail sales; US import/export prices; US NAHB housing market index

#### **Thursday January 17:**

**Trading updates:** Associated British Foods plc (LON:ABF), Whitbread plc (LON:WTB), Experian PLC (LON::EXPN), Sage Group PLC (LON:SGE), GVC Holdings PLC (LON:GVC), Game Digital PLC (AGM) (LON:GMD), DP Eurasia NV (LON:DPEU), SSP Group PLC (LON:SSP), Workspace Group plc (LON:WKP), Ibstock Plc (LON:IBST)

**Interims:** Ilka PLC (LON:IKA)

**FTSE 100 ex-dividends:** Ashtead Group PLC (LON:AHT), Compass Group PLC (LON:CPG), SSE plc (LON:SSE)

**Economic data:** EICS house price survey; US weekly jobless claims; US housing starts; US Philly Fed manufacturing index

**Friday January 18:**

**Trading updates:** Rio Tinto PLC (LON:RIO), Bakavor PLC (LON:BAK)

**AGMs:** Kazera Global PLC (LON:KZG)

**Economic data:** UK retail sales; US industrial, manufacturing production; University of Michigan preliminary consumer sentiment index

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