

# Market Preview

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## All eyes on UK parliament as Brexit deal circus reaches final act

Tuesday will be crunch time for UK prime minister Theresa May and her government as the parliamentary vote on her Brexit deal finally takes place after five days of fierce debate.

The deal is not expected to pass due to criticism from both sides of the Brexit divide, with the government facing down not just opposition parties but also dozens of disaffected Tory MPs and the DUP, whose votes are critical to keeping the minority government afloat in the Commons.

If the deal fails, it would throw the Brexit process into new uncertainty, with the outcome seemingly impossible to call. The Labour party are likely to try and force a general election through a vote of no confidence in the government, provided a Tory leadership challenge does not oust May from her position first.

There is also increasing support for a second referendum (or 'people's vote') on Brexit, which when coupled with a decision from the European Court of Justice on Monday which is likely to confirm the opinion that the UK can cancel the process unilaterally would lend extra credence to a second public vote on the issue, although this itself has mixed support across the political spectrum.

### UK data to take a back seat

Given the crucial week in the Brexit negotiations, UK economic data will likely take a back seat, however, after the November Markit Services purchase managing index (PMI) survey brought to the fore some of the real impacts of Brexit - being the lowest PMI figure since immediately after the referendum - manufacturing, construction and industrial production will still be closely watched on Monday.

In a preview, Graham Spooner, investment research analyst at The Share Centre commented: "Only the construction sector has shown a positive trend lately, however as we get into the deeper end of Brexit, we may see signs of activity in the manufacturing sector as businesses begin to stockpile for the worst case scenario."

### Wage growth key

Meanwhile, the latest UK unemployment rate should remain close to recent lows of around 4.1%, although the labour market focus on Tuesday will once again be on the rate of wage growth.

Spooner said: "For October it was encouraging to see wages breach the 3% level as a sign of the health of the UK jobs market, but this will undoubtedly fuel interest rate expectations, but policy makers have got other things to worry about at the moment."

### ECB meeting another sideshow

The week's other main macro focus will be on the European Central Bank interest rate decision, due on Thursday, although no changes are expected, with the main focus - as always - on the comments from ECB president Mario Draghi.

Draghi, who steps down from the post in 2019 after eight years, clearly feels that he has done 'whatever it takes' to keep the euro currency and the eurozone's economy on the right path.

Russ Mould, investment director at AJ Bell noted that at this meeting Draghi is expected to taper the ECB's quantitative

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### 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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easing bond-buying programme to zero, having launched the scheme in March 2015.

Mould said: "This will give investors a chance to see if the Eurozone's economy, currency and banking system can stand on their own two feet, although do note that Draghi is merely talking about not adding to QE rather than withdrawing it, a process which the US Federal Reserve began in 2017."

Draghi is also expected to leave the ECB's headline interest rate unchanged at zero, where it has been anchored since March 2016, Mould added.

TUI to shrug off summer heatwave that burned Thomas Cook

On the corporate front, travel firms will be in focus again, with blue chip TUI AG (LON:TUI) following troubled rival Thomas Cook Group PLC 's (LON:TCG) dire trading update with its latest full-year results on Thursday

TUI issued a reassuring trading update in September despite the summer heatwave leading to more staycations in the UK.

In that last update, the holidays group said it continues to expect underlying earnings to rise at least 10% at constant currency this year even though it sees the Turkish Lira having a bigger impact than previously anticipated.

The group said its strategy of having a balanced portfolio of hotels and resorts in a number of destinations continued to pay off while it has seen the benefits of a return to demand for trips to Turkey and North Africa as well as increased popularity of Greek holidays.

TUI's full-year results are likely to be compared to the performance of Thomas Cook, which posted a fresh profit warning last month.

Graham Spooner, investment research analyst at The Share Centre, pointed out that TUI is a much bigger company with less exposure to the tour operator sector in the UK.

Strategy update crucial for WPP

Mark Read, WPP PLC's (LON:WPP) new group CEO will host the advertising giant's much-anticipated strategy update for investors and analysts at 12.30pm on 11 December.

According to analysts at Shore Capital, the event will provide an opportunity for Read and his team to provide "greater granularity on the practical and financial implications of its post-Sorrell era strategy."

The ShoreCap analysts expect the FTSE 100-listed firm to highlight a heightened focus on direct collaboration between group companies, a drive on cost savings and efficiency, and; a disciplined approach to capital allocation, including further asset disposals.

In its third-quarter trading update at the end of October, WPP revealed that 16 non-core disposals had already been achieved in the year-to-date, raising £704mln.

It also flagged up that it is investigating selling off a stake in data insight and consulting firm Kantar following unsolicited expressions of interest and investors will definitely be looking out for news on this possibility, the analysts added.

Tough times for Dixons Carphone

As Christmas fast approaches, updates from retailers will also be eyed closely, with first-half results due from electricals stores group Dixons Carphone Plc (LON:DC.) due on Wednesday.

Things aren't easy for the FTSE 250-listed firm which has lost more than fifth of its value so far this year.

The retail sector as a whole is struggling, while cash-strapped consumers are opting to upgrade their phones, TVs and computers less often.

Like-for-like sales were flat in the first quarter, but those figures were flattered by the World Cup.

The 'Amazon effect' has forced Dixons to cut prices in recent years which has hit profits, but there's only so much cutting that can be done.

Instead, the company has been focusing on what Amazon and co can't do: face-to-face service. Dixons Carphone has been pouring money into the in-store experience, and more investment is expected.

Full-year profit before tax is still expected to be around £300mln, and investors will want to see proof that that's likely to be the case with the interim results.

#### Colder weather to help SuperDry

SuperDry PLC (LON:SDRY), the fashion brand of choice for 'trendy' forty-something dads, is another retailer set to publish its interim numbers on Wednesday.

The coat and jackets maker has also been struggling given the tough retail climate in the UK, while the warm weather hasn't helped, denting demand for its warm winter outerwear which is what it's known for and is one of its main profit drivers.

Co-founder Julian Dunkerton left in March after deciding a "change of strategy" was needed, although he has since threatened a comeback in light of the weak trading, which contributed to last month's profit warning.

One of SuperDry's big misses of the past couple of years has been its failure to jump on the lucrative athleisure bandwagon.

It is six months into a diversification programme which will see it reduce its reliance on coats and sweaters and put more of a focus on sportswear and lighter items of clothing.

The market will be looking for an update on how the plan is progressing, while the colder weather of late should provide a little boon to coat sales.

#### Sports Direct interims to tell an interesting story

Mike Ashley's Sports Direct International PLC (LON:SPD) has had a busy six months, acquiring both department stores group House of Fraser and Evans Cycles from administrators as he tightens his grip over the beleaguered high street, so its interim results on Thursday will make for interesting reading.

George Salmon, equity analyst at Hargreaves Lansdown pointed out that another strategic change happening at Sports Direct is its 'Selfridges of Sport' strategy, which means the group is investing in improving its store appearances.

Salmon said: "While these new stores are said to be helping business, we're yet to actually see proof of that in the numbers, so investors will be keen to know if this facelift really is showing results."

The analyst added: "The other thing we'll be taking notes on is group debt. Those estate updates, acquisitions, and a chunky £114mln share buyback programme, saw half-year net debt more than double to £397.1mln. Signs that's on its way down, or at least staying flat, would be welcome."

#### Ocado earnings to be hit by international deal investments

Online grocer Ocado Group PLC (LON:OCD) has signed a number of partnerships with big international names recently, meaning it has had to spend more on warehouses and technology.

The company supplies automated warehouses and e-commerce software to supermarkets, including Kroger, Canada's Sobeys and Sweden's ICA.

The extra investment involved in getting online grocery operations up and running for the company's partners is

expected to hit earnings this year.

Analysts predict Ocado will confirm this when it releases a fourth quarter trading on Thursday.

Ocado's own online grocery delivery business has been slowing of late so investors will be looking out for progress on its new distribution centres for its partnerships.

**Tough time for contractor Balfour Beatty**

It's been a tough time for contractors recently, not least after Kier Group PLC's (LON:KIE) surprise cash call earlier this month to help stabilise its balance sheet.

That prompted fears of a debt crunch in the sector and Balfour Beatty plc (LON:BBY) was one of those caught in the crossfire, although it moved quickly to reassure investors that its debts were under control.

Still, its shares are down more than 10% over the past month and more than a fifth so far in 2018, with investors still wary.

Intense competition has forced companies to underbid one another, leaving them with little room for movement when projects overrun and costs rise more than expected, which they inevitably will.

Fears for the sector came to fruition earlier this year when Carillion, another outsourcer with a wealth of government contracts, collapsed.

Balfour Beatty, which reports third-quarter numbers on Friday, has won two big contracts worth £2.5bn over the past month as its turnaround plan continues. The market will be hoping that's a sign of things to come.

**US nicotine crackdown to overshadow BAT's results**

The tobacco industry has been rocked by new restrictions the US government is planning to put on nicotine products.

Last month the US Food and Drugs Administration announced measures to prevent minors from using flavoured nicotine products and is considering a ban on menthol cigarettes.

Shares in British American Tobacco plc (LON:BATS), which issues a full year trading update on Wednesday, have almost halved over the past year on concerns about stricter regulation and margins taking a hit as more people switch to e-cigarettes.

But analysts at Jefferies International have said BAT remains its top pick of the sector and they believe market fears around risks of US headwinds are overdone.

"It has the best growth outlook across the space in our view, yet is the name that has been most plagued by anchoring/short-termism," the Jefferies analysts said.

They added: "It has been our conviction buy for some time, yet the share price keeps going down. We admit as a near-term call it has been disappointing, but we still have faith."

In a trading update in October, BAT lowered its annual revenue target for cigarette alternatives, blaming a flat performance in Japan and a product recall of its Vuse Vibe power units in the US earlier this year due to malfunctioning batteries.

It said it expects revenue from next-generation products, which include e-cigarettes and tobacco-heating devices, of £900m in this year, down from a previous target of £1bn.

The company, which owns Lucky Strike and Dunhill cigarettes, also warned that currency fluctuations would drag on its adjusted earnings per share (EPS) growth by 7% if rates are unchanged for the rest of the year.

#### Reassurance needed from Ashtead

Equipment hire blue chip Ashtead PLC (LON:AHT) saw its shares hit by the market sell-off in October despite the fact that September's first quarter figures beat expectations.

The group will provide a second-quarter update on Tuesday which will give another chance for the firm to provide some reassurance.

Given that revenues from the US account for 87% of Ashtead's total, investors will be focusing particularly on the performance there and any comments on future prospects.

Ashtead's shares did get a boost earlier this month from news that its chief executive Geoff Drabble has decided to step down from his role at the end of the current financial year, to be replaced by Brendan Horgan, currently chief executive of the group's North American business, reflecting that US bias.

#### Expansion ongoing at Bunzl

In a third-quarter update at the end of October, FTSE 100-listed International distribution and services group Bunzl PLC (LON:BNZL) said its overall performance was consistent with expectations at the time of August's half-year results announcement as it unveiled an acquisition in Brazil.

Bunzl said its third-quarter revenue increased by 7% at constant exchange rates, driven by organic growth of around 4% and an impact from acquisitions, net of disposals, of 3%.

The group expanded in October via the acquisition of Volk do Brasil, a distributor of personal protection equipment based in Parana, Brazil, for an undisclosed sum, and Graham Spooner, investment research analyst at The Share Centre there is every chance of another purchase being announced with the firm's fourth-quarter update due on Thursday.

Spooner said that other areas to focus on for Bunzl will be the effects of currency movements and the outlook for the year ahead.

He added: "The company's defensive attractions have been growing over the year with the shares still close to an all-time high."

#### Purplebricks outlook eyed amid UK housing market slowdown

Investors in online real estate agent Purplebricks Group PLC (LON:PURP) will be hoping for a positive outlook when the firm reports its interim results on Thursday.

Most of the key metrics for the first six months were revealed in a trading update in November when the group reported a 20% increase in first-half revenue as it continued to gain market share despite a slowdown in the UK housing market.

At the time, Purplebricks' chief executive Michael Bruce said the slowdown was "highlighting weaknesses in both some traditional and online agents business models".

Shareholders will also be on the lookout for news about the company's US arm and its joint venture with digital publishing house Axel Springer, which in October took a 25.9% stake in Homeday, the dominant online realtor in Germany.

#### Investors hope for international rescue in SThree fourth quarter

When it issues a trading update on Friday, investors in recruitment firm SThree PLC (LON:STHR) will be hoping for more of the same after international job markets offset weak UK demand in the third quarter.

In September, the group said third-quarter gross profit rose to £82.7m from £73.7m the same period a year ago.

Continental Europe was the key driver of growth with gross profit up 24% to £47m while the US delivered an 8%

increase in gross profit to £18.2mIn and the Asia Pacific and the Middle East achieved a 16% gain to £4.5mIn.

The UK and Ireland division, on the other hand, saw gross profit fall 10% to £13mIn as employers continued to exercise caution amid Brexit uncertainty.

With the fourth quarter being the "most significant trading quarter" according to chief executive Gary Elden, any potential slowdown or less positive figures will be eyed closely.

Significant announcements expected week ending Dec 14: Monday December 10:

**Interims:** Photo-Me International plc (LON:PHTM)

**Finals:** Hollywood Bowl Group PLC (LON:BOWL), Hardide Plc (LON:HDD), Nexus infrastructure PLC (LON:NEXS), Scottish Investment Trust PLC (LON:SCIN)

**Economic data:** UK manufacturing, industrial production; UK trade figures; UK GDP monthly estimate; UK construction output; US JOLTS job openings

Tuesday December 11:

**House of Common's Brexit vote**

**Strategy update:** WPP PLC (LON:WPP)

**Interims:** Ashtead Group PLC (Q2) (LON:AHT), Carpetright PLC (LON:CPR), Summit Therapeutics PLC (Q3) (LONLSUMM), Shearwater Group plc (LON:SWG), ECO Animal Health Group PLC (LON:EAH)

**Finals:** Driver Group PLC (LON:DRV), Oxford Biodynamics PLC (LON:OBD), RWS Holdings PLC (LONLRWS), Zytronic PLC (LON:ZYT), MedicX Fund Ltd (LON:MXF)

**Economic data:** UK unemployment; UK average earnings; German ZEW economic sentiment survey; US PPI

Wednesday December 12:

**Trading updates:** British American Tobacco plc (LON:BATS), Wood Group PLC (Q3) (LON:WG.), Blancco Technology Group PLC (LON:BLTG)

**Interims:** Dixons Carphone Plc (LON:DC.), Superdry PLC (LON:SDEY), Fulham Shore PLC (LON:FUL), Evgen Pharma PLC (LON:EVG), Polar Capital Technology Trust PLC (LON:PCT)

**Economic data:** US CPI

Thursday December 13:

**ECB rate decision**

**Finals:** TUI AG (LON:TUI). IntegraFin Holding PLC (LON:IHP)

**Interims:** Sports Direct PLC (LON:SPD), Purplebricks PLC (LON:PURP), RhythmOne PLC (LON:RTHM), Tungsten Corp. PLC (LON:TUNG)

**Trading update:** Ocado Group PLC (Q4) (LON:OCDO), Bunzl PLC (LON:BNZL), Serco PLC (LON:SRP), PZ Cussons PLC (Q1) (LON:PZC)

**Ex-dividends to clip 1 point off FTSE 100 index:** Associated British Foods plc (LON:ABF), 3i Group PLC (LON:III)

**Economic data:** US weekly jobless claims; US export, import prices

Friday December 14:

**Trading updates:** Balfour Beatty plc (Q3) (LON:BBY), SThree PLC (LON:STHR), Reach PLC (LON:RCH)

**Interims:** ReNeuron Group Plc (LON:RENE)

**Finals:** Jersey Electricity PLC (LON:JEL)

**Economic data:** US retail sales; US industrial production

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