

# Market Preview

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## Shifting supermarket landscape the focus with first-half results from Morrison's

The state of the supermarket sector will be the main corporate focus in the coming week as investors look for clues on the environment following the effective torpedoing of plans for J Sainsbury PLC (LON:SBRY) to merge with Wal-Mart Inc (NYSE:WMT) owned Asda.

Full-year results are due from Wm Morrison Supermarkets PLC (LON:MRW) on Wednesday, with the last time investors heard from Morrison's CEO David Potts back in January when the food retailer reported a 3.6% rise in like-for-like sales over Christmas but warned of a "change in consumer behaviour".

Competition concerns are not going away, particularly as the merger of the second and third biggest players looks to have been kyboshed by UK authorities, and investors will want to hear more about the supermarket landscape.

The rise of German discounters Aldi and Lidl has forced Morrisons and its Big Four peers to slash their prices and the grocer said in that January update it was "more competitive" over Christmas, so it will be interesting to see what effect that has had on profits.

As ever, recent sales numbers in the core retail business, which excludes the wholesale division, will be important, too.

### Berkeley vs Brexit

With the housing market slowing down amid Brexit uncertainty, focus will be on the full year outlook when Berkeley Group Holdings PLC (LON:BKG) releases a trading update on Friday.

In December, the housebuilder raised its profit guidance for 2019 after a "resilient start to the year" despite demand in the London and south-east property market being hit by uncertainty on the outlook for the UK economy.

In the first half, profit dropped to £401.2m from £539.9m a year ago and revenue fell to £1.65bn from £1.66bn.

Berkeley said the London and south-east property market "lacks urgency" while higher taxes and mortgage restrictions had also dampened demand.

UBS does not expect any major changes to the update provided with December's interims, with its full-year 2019 pre-tax profit forecast for Berkeley at £730m, against guidance for £710m to £730m, and a net cash estimate of around £850m.

### Demerger progress eyed at Prudential

Prudential PLC (LON:PRU) is in the process of spinning off its UK business M&G so investors will be looking for an update on the demerger when the group posts its full-year results on Thursday.

UBS expects the pensions and insurance giant to post operating profit of £4.6bn for 2018, in line with consensus forecasts but flat compared to a year earlier.

Asia will continue to be the key driver with operating profit estimated to reach £2.0bn, up from £1.9bn the previous year.

UBS predicts a full year dividend of 49.35p, which is 2% below market forecasts but up 5% year-on-year. The Pru's

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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.*

[action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

solvency ratio - a measure of capital strength for insurers - is expected to rise 11 points to 212%.

The Swiss bank's analysts said: "We expect the key focus areas to be: 1) Asia new business sales growth, where Hong Kong should evidence strong y-o-y growth but the growth trends excluding Hong Kong will also be key; 2) the US capital position (RBC ratio) and stat capital generation for FY18; 3) UK: update on UK demerger; 4) ongoing trends in fund flows from M&G, PruFund and Eastspring and 5) some details regarding recent Board composition changes."

#### Outflow levels eyed from Standard Life Aberdeen

Blue-chip investment manager Standard Life Aberdeen PLC (LON:SLA) has had a busy first year since merging in 2017, losing a big mandate from Lloyds Banking Group PLC (LON:LLOY) but sealing the £3bn sale of its life assurance business to Phoenix Group Holdings PLC (LON:PHNX).

Recent updates from other asset managers have shown a slow down in flows in the first quarter of 2018 in the face of volatile markets.

Analysts at UBS expect Standard Life Aberdeen to report fund outflows of £22.8bn from its Growth business in the second-half, together with another £5.5bn of outflows from its Mature insurance business.

The Swiss bank expects the FTSE 100-listed firm to report second-half revenue of £1.12bn, down 17% on the first-half number, albeit largely due to the sale of the insurance business which completed in the middle of the period.

UBS sees the group's gross operating profit coming in at £300m, with after-tax adjusted profit to be £310m, down 19% from the first-half.

The UBS analysts said with a new chairman, Douglas Flint having started on 1 January 2019, investors will also likely be focused on any commentary regarding Standard Life Aberdeen's co-CEO structure or any guidance on the potential liquidation of its 30% stake in HDFC Life.

#### Weather holding back Domino's

At the end of January, Domino's Pizza Group PLC (LON:DOM) issued a profit warning after experiencing "growing pains" in some of its international markets.

Things seemed better in its core UK business, where like-for-like sales climbed 4.5% in the final quarter.

But investors will keep an eye on the bottom line, as City broker Liberum thinks most of that growth was driven by price cuts.

Investors already know that Domino's full-year underlying pre-tax profits will be at the lower end of the consensus range of £93.9m-£98.2m, so focus on Tuesday will instead be on the outlook.

Liberum's analysts think that the "comparative is not easy", with like-for-likes climbing 7.1% in the opening two months of 2018.

In a note, they said: "Our view is the weather has been unhelpful in Q1'19. So our expectations are for low LFL sales. Moreover, for Q1 19, this will not include Easter which fell into Q1 18 last year."

#### Staff costs to knock 'Spoons' H1 profits

JD Wetherspoon PLC (LON:JDW) is set to report a fall in profits when it publishes its first-half results on Friday, despite enjoying a very merry Christmas.

'Spoons had originally expected like-for-like sales growth of 4.0% to be enough to match last year's record profits.

Same-pub sales were up 6.3% at the end of January, but that won't be enough to maintain the bottom line, after the value pub chain had to hike staff pay in November amid a tight jobs market.

At the time, chairman Tim Martin said that pre-tax profits would be "lower than same period last year" as a result of the higher costs.

Investors will want to see that the strong top-line growth has continued into the start of the second half. If sales have been good enough, who knows, bosses might be able to revert to their original guidance.

**In-line 2018 to reassure for Capita**

After an eventful 2018, mid-cap outsourcing group Capita PLC (LON:CPI) should deliver results in line with consensus, although analysts at UBS expect 2019 to also be challenging.

The Swiss bank's analysts expect the FTSE 250-listed firm to post full-year adjusted pre-tax profit of £255m, at the low-end of the guidance range of £250m-£275m.

They will be looking for an update on Capita's progress with cost savings, believing the company is well on track for £70m savings this year and £175m in total by full-year 2020, as well as on challenging contracts, and reinvestment plans.

The UBS analysts expect 2019 to represent another year of declining organic growth and further cash burn but still anticipate Capita reiterating its 2020 target of £200m in adjusted free cashflow.

**Cineworld investors hope for blockbuster 2018**

In a trading statement in January, the world's second-largest cinema chain Cineworld PLC (LON:CINE) said a record 308m people had packed into its theatres in 2018, helping its US business rake in US\$3.5bn.

Investors will likely be looking for some more healthy numbers in its full-year results on Thursday after the group said total revenues had grown 4.8% in the year.

However, there may be one sticking point in Cineworld's UK arm, which saw revenue decline by 0.6% in the period on the back of fewer visitors.

Any indication of this trend continuing, or the possibility of a turnaround will be closely eyed.

**DFS Furniture hopes to keep sitting pretty**

After reporting strong growth in underlying sales for the five months to 30 December, DFS Furniture Plc (LON:DFS) will be looking to have kept the trend going for the rest of its first half.

Overall, gross like-for-like sales growth in the period was 29% and the company left its full-year guidance unchanged in the January update, so investors will likely be watching for any deviation from that previous outlook when the interims are released on Thursday.

DFS also said at that time that it was "mindful of the risk of near-term political and economic uncertainty". Given that Brexit has crept much closer since then, there could be an update on any potential macro fallout.

**Nothing new from Savills**

No surprises are expected from estate agent Savills PLC (LON:SVS) when it reports its finals on Thursday, having said in a January update that 2018 would be in line with expectations after a "robust" final quarter.

What's more likely to hold investor attention is the gloomy picture the firm painted of the coming year, having previously said it was bracing itself for declines in transaction volumes in a number of markets.

The company has already said it is expecting a fairly flat performance year-on-year for 2019, so any shift in this prediction will either bring relief or misery for investors.

Analysts at UBS are forecasting Savills to report underlying pre-tax profits of £141m and diluted earnings per share

(EPS) of 72.8p.

#### Brexit to overshadow Spring Statement

Given the uncertainty surrounding Brexit, Philip Hammond is not expected to announce any significant tax changes when he presents the Spring Statement on Wednesday, which will be the week's main macro focus.

The statement will be released a day after MPs vote on Theresa May's Brexit plan and two weeks before the UK is due to leave the European Union.

Hammond has vowed to increase public spending if MPs back May's Brexit plan. In October when he presented the Budget, he said he had £15.4bn in the coffers but warned that he would need that money to deal with the event of a no-deal Brexit.

The chancellor will have more room for manoeuvre after official figures showed January had the largest monthly surplus in public finances since records began in 1993.

But he is unlikely to raise public spending until there is more certainty on Brexit. Instead, Hammond will probably concentrate on updating the UK on the health of the economy along with the latest forecasts from the Office for Budget Responsibility.

#### UK growth data to keep slowing

A batch of key UK data will be revealed ahead of the Spring Statement and in another crucial week in Westminster for the Brexit process, with the main focus on January's GDP growth numbers.

Economists at RBC Capital think the latest GDP estimate will give some indication of whether recent survey data is being too pessimistic on UK growth.

UK GDP fell by a relatively large 0.3% month-on-month in December as output in services, industry and construction all fell on the month, the first time that has been observed since September 2012.

RBC's economists think the weak finish to last year coupled with what the survey data suggests points to an even slower start to this year, which should see the three month GDP growth rate drop to 0.1%.

Significant announcements expected for week ending March 15: Monday March 11:

**Finals:** Old Mutual Limited (LON:OMU), Clarkson PLC (LON:CKN), Hutchison China Meditech PLC (LON:HCM), Microsaic Systems plc (LON:MSYS)

**Interims:** Silence Therapeutics PLC (LON:SLN), River & Mercantile Group PLC (LON:RIV)

**Economic data:** US consumer inflation expectations; US business inventories

Tuesday March 12:

**Finals:** G4S PLC (LON:GFS), Domino's Pizza Group PLC (LON:DOM), Cairn Energy PLC (LON:CNE), Computacenter PLC (LON:CCC), Quilter PLC (LON:QLT), Goals Soccer Centres PLC (LON:GOAL), 888 Holdings PLC (LON:888), John Menzies PLC (LON:MNZS), Pendragon PLC (LON:PDG), Forterra PLC (LON:FORT), Forbidden Technologies plc (LON:FBT), French Connection Group PLC (LON:FCCN), Gresham Technologies plc (LON:GHT), Gamma Communications PLC (LON:GAMA), H&T GROUP PLC (LON:HAT), Midwich Group Plc (LON:MIDW), Pennant International Group PLC (LON:PEN), Surgical Innovations PLC (LON:SUN)

**Interims:** Close Brothers Group PLC (LON:CBG), Purecircle Limited (LON:PURE)

**Economic data:** UK GDP monthly estimate; US core inflation rate; US NIFB business optimism index

Wednesday March 13:

## UK Spring Statement

**Finals:** Wm Morrison Supermarkets PLC (LON:MRW), Prudential PLC (LON:PRU), Standard Life Aberdeen PLC (LON:SLA), Lookers PLC (LON:LOOK), Dignity PLC (LON:DTY), Balfour Beatty plc (LON:BBY), Hikma Pharmaceuticals PLC (LON:HIK), Gen Diamonds Ltd (LON:GEMD), Lookers PLC (LON:LOOK), Marshall Motor Holdings PLC (LON:MMH), Manx Telecom PLC (LON:MANX), Advanced Medical Solutions PLC (LON:AMS), Avast PLC (LON:AVST), Burford Capital PLC (LON:BUR), Empresaria Group plc (LON:EMR), ECSC Group PLC (LON:ECSC), Gem Diamonds Ltd (LON:GEMD), StatPro Group PLC (LON:SOG), SigmaRoc PLC (LON:SRC), SafeCharge International Group Ltd (LON:SCH), Kenmare Resources PLC (LON:KME)

### Economic data: US PPI

Thursday March 14:

**Finals:** Capita PLC (LON:CPI), Cineworld PLC (LON:CINE), Savills PLC (LON:SVS), Marshalls PLC (LON:MSLH), Just Group PLC (LON:JUST), Capital & Regional PLC (LON:CAL), Capital Drilling Ltd. (LON:CAPD), Oxford Biomedica PLC (LON:OXB), Oakley Capital Investments PLC (LON:OCI)

**Interims:** DFS Furniture Plc (LON:DFS), Brooks Macdonald Group plc (LON:BRK), Kin and Carta PLC (LON:KCT)

**Ex-dividends to clip 3.6 points off FTSE 100 index:** Anglo American PLC (LON:AAL), CRH PLC (LON:CRH), GVC Holdings PLC (LON:GVC), Land Securities PLC (LON:LAND)

**Economic data:** RICS UK housing market survey; US retail sales; US weekly jobless claims; US import, export prices

Friday March 15:

**Trading updates:** Berkeley Group PLC (Q3) (LON:BKG), SThree PLC (LON:STHR)

**Interims:** JD Wetherspoon PLC (LON:JDW)

**Finals:** Restaurant Group PLC (LON:RTN), Eurocell PLC (LON:ECEL)

**Economic data:** UK trade in goods data; US industrial production; US manufacturing production; US NY Empire State manufacturing index; University of Michigan US preliminary consumer confidence index

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Contact us +44 (0)207 989 0813 [action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

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