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## Beaufort Securities Breakfast Alert: Daily Mail, easyJet, SABMiller, Unilever

### Markets

#### Europe

The FTSE-100 finished yesterday's session 0.43% lower at 6,699.89, whilst the FTSE AIM All-Share index closed 0.22% better-off at 738.27. In continental Europe, markets ended mixed following the European Central Bank's decision to keep interest rates unchanged. Investors digested a mixed set of corporate earnings, released yesterday. Germany's DAX inched up 0.1%, while France's CAC 40 edged down 0.1%.

#### Wall Street

Wall Street ended in the red as oil prices remained under pressure following reports of oversupply in gasoline. Additionally, disappointing corporate earnings dampened investor sentiment. The S&P 500 dropped 0.4%, led by losses in industrial and materials sectors.

#### Asia

Equities are trading lower as hopes of a further stimulus from the Bank of Japan weakened. The Nikkei 225 shed 1.1% as a stronger yen pressured export-driven stocks. The Hang Seng was trading 0.4% down at 7:00 am.

#### Oil

Yesterday, Brent oil prices slid 2.1% to US\$46.20 per barrel, and WTI prices fell 0.4% to US\$44.75 per barrel.

### Headlines

#### UK retail sales fall sharply in June

As per the Office for National Statistics, UK retail sales fell 0.9% m-o-m in June, marking the sharpest drop in six months, after recording a 0.9% increase in May. This is primarily ascribed to a contraction in clothing sales due to bad weather. On a y-o-y basis, retail sales expanded 3.9% in June following a 5.2% rise in May.

### Company news

Daily Mail & General Trust (LON:DMGT, 692.50p) - Buy

Daily Mail & General Trust (LON:DMGT) released a trading update for the three months ended 30th June 2016 (Q3 2016). DMGT reported 1% underlying revenue growth for the period, with the business-to-business (B2B) segment registering 3% underlying revenue growth. The dmg media segment's underlying revenue declined 2% owing to a weak print advertising market in the UK. Net debt was reported at £719m, unchanged from the level as at 31st March 2016 and in line with expectations. On 1st June 2016, Paul Zwillenberg was appointed as chief executive, succeeding Martin Morgan who retired.

Our view: DMGT's performance in Q3 2016 was in line with expectations. The company's B2B segment led revenue growth; as most of its sub divisions registered underlying growth in revenue. Risk Management Services (RMS) (division of B2B) reported 5% underlying revenue growth owing to a stronger US dollar. The RMS (one) suite of products and solutions remains on track to be released in stages to RMS's client base. The first application to run on RMS (one), Exposure Manager, is likely to be launched in the coming weeks. DMG information (division of B2B) reported 6% underlying revenue growth, driven by strong expansion in its portfolio businesses. DMGT remained active in portfolio management. DMG information acquired and invested in several early-stage firms operating in the energy and property information sectors in the US. We remain concerned about dmg media's print advertising segment. Nonetheless, we are confident about the company's prospects owing to growth in other divisions and continuous initiatives to enhance its portfolio. Therefore, we maintain a Buy rating on the stock.

Click here to request a call back from a broker regarding this recommendation.

#### easyJet (LON:EZJ, 1,067.0p) - Hold

easyJet, a low-cost European short-haul airline company, yesterday provided trading statement for the third quarter ended 30 June 2016 ('Q3 FY2016'). As previously warned on 27 June, the Group has experienced 1,221 cancellations in the quarter, due to a significant number of disruption events, ranging from terrorist attack in the Brussels, the crash of EgyptAir, a series of ATC strikes (mainly French), severe weather conditions, to runway closures and congestion at London Gatwick airport. June was particularly worse with 852 cancellations against 487 in 2015. Despite this, number of passenger advanced by +5.8% to 20.2 million as capacity increased +5.5% to 21.9 million seats. Load factor increased by +0.3% to 92%. Total revenue, on the other hand, declined by -2.6% to £1,196m as increased capacity and cancellations negatively impacted yield, while total revenue per seat also fell by -8.3% at constant and -7.7% on an actual exchange rate basis to £54.54 per seat. easyJet says it has strong cost control in place with cost per seat excluding fuel at constant currency remain broadly flat despite £20m of disruption cost during the quarter. Cash and money market deposits were £1,120m (end-Q3 FY2015: £930m) and net cash stood at £368m (end-Q3 FY2015: £421m) as at 30 June 2016. easyJet's CEO, Carolyn McCall commented "The economic and operating environment has been difficult in the third quarter...despite this, easyJet carried more passengers and achieved higher load factors during the third quarter as easyJet's brand continued to resonate strongly across Europe. The easyJet business model remains robust, with a strong cash position, solid balance sheet and a flexible fleet plan. The easyJet team is confident in its ability to navigate the period ahead and drive long term advantage." The Board reiterated its committed to increase its dividend pay-out ratio to 50% of post-tax income.

Our view: As anticipated, Q3 performance made for unexciting reading. In addition to the already familiar disruptive events (detailed above), more recent additional factors, including the coup attempt in Turkey and tragic incident in Nice (France) further undermined traveller confidence. Sterling's devaluation following Brexit, may also squeeze prospective UK traveller budgets and also caused higher US\$-denominated jet fuel costs. In the interview with BBC, the Group CEO, Carolyn McCall, noted Sterling devaluation has resulted in a £40m hit to profit in June alone. For the whole year, the Group estimated there will be c.-£80m adverse impact compared to the FY2015, offsetting gains (+£160m-£170m) from lower year-on-year fuel prices (bearing in mind that for year end- 2016 this is forward hedged by 88% while 2017 is 79%). These factors prompted low-cost airlines to compete more intensively on prices, which consequently decreased total revenue per seat by -8.3% in the quarter just reported (on a constant currency basis). The Group stated on 27th June that disruption events have impacted Q3 pre-tax profit by c.-£28m. Looking ahead, easyJet has secured 65% of Q4 expected bookings so far at average revenue per seat -7.5% lower year-on-year on a constant currency basis. Considering falling consumer confidence and the fact that summer period tends to contain higher levels of discretionary leisure travel, we see limited scope of positive surprises during the remainder of the FY2016. Long-term the outlook for easyJet is also somewhat clouded post Brexit, considering additional tariff/delays/restriction that could potentially be imposed give a 'worst case' scenario. Beaufort reiterates its HOLD recommendation on easyJet. [Click here to request a call back from a broker regarding this recommendation.](#)

#### SABMiller (LON:SAB, 4,430.0p) - Buy

SABMiller released a trading update for the three months ended 30th June 2016 (Q1 2017). The company recorded a 2% rise in group net producer revenue (NPR). Its subsidiaries registered 7% NPR growth, along with a 4% rise in beverage volume and a 5% increase in lager volumes. SABMiller's associates and joint ventures registered a decline in NPR (4%), beverage volume (4%) and lager volume (5%). Beverage and lager volumes were in line with the levels recorded last year, while soft drinks volumes expanded 2.0%. On a reported basis, group NPR fell 4% due to the negative impact of currency translations. On 2nd July 2016, Africa's largest Coca-Cola bottler, Coca-Cola Beverages Africa (CCBA), was formed through the combination of the African non-alcoholic ready-to-drink bottling interests of SABMiller, The Coca-Cola Company and Gutsche Family Investments. CCBA would be consolidated as a subsidiary of SABMiller. Separately, SABMiller and Anheuser-Busch InBev (AB InBev) received approval for their US\$107bn acquisition by the US Department of Justice's (DOJ) antitrust officials.

Our view: SABMiller registered a good performance for Q1 2017 despite challenging conditions. SABMiller's group NPR growth was driven by price and mix realisation. Its subsidiaries continued to perform well, registering high NPR and volume growth. Meanwhile, economic volatility and weak consumer demand led to a decline in the company's results in Africa. Nonetheless, SABMiller recorded NPR growth across other markets. AB InBev receiving approval for acquisition of SABMiller by the US DOJ is a positive development. SABMiller and AB InBev collectively account for over 30% of the beer sold globally. They operate brands such as Budweiser, Stella Artois, Grolsch and Pilsner Urquell. The merger deal

requires China's approval, which is widely expected, given the proposed divestment of SABMiller's business in the country. SABMiller's strategies for the expansion of its beer business and diversification of its brand portfolio seem judicious. Thus, considering the optimism over SABMiller's business prospects, we reiterate our Buy rating on the stock. [Click here to request a call back from a broker regarding this recommendation.](#)

#### Unilever (LON:ULVR, 3,534.0p) - Buy

Unilever declared its results for the second quarter (Q2 2016) and half year (H1 2016) ended 30th June 2016. During H1 2016, revenues fell 2.6% y-o-y to €26.3bn. Underlying sales, which exclude the impact of foreign exchange, rose 4.7%, supported by volume growth of 2.2% and a price increase of 2.5%. Operating profit dropped 0.1% to €3.8bn. Net profit increased 2.0% to €2.7bn, leading to a core EPS of €0.92 per share, up 1.3% from last year. For H1 2015, the company's Personal Care segment recorded a 5.7% rise in underlying sales due to a 3.6% and 2.0% increase in volume sold and prices, respectively. The Foods segment recorded a 2.3% increase in underlying sales, whereas volume sold fell 0.5%. The Home Care segment's underlying sales increased 6.5%, with a volume growth of 2.9%. Unilever's Refreshment segment, which includes ice cream and tea, reported a 4.1% rise in underlying sales, driven by 2.2% volume growth. Net debt at the end of H1 2016 stood at €12.6bn compared with €11.5bn as at 31st December 2015. Unilever declared a dividend of €0.3201 per share for Q2 2016, which would be paid in September 2016.

**Our view:** Unilever delivered strong performance in H1 2016 despite a difficult trading environment with weak global economic growth and geopolitical tensions. The company reported an increase in underlying sales, as it sold more products at higher prices. Unilever's largest segment, Personal Care led the growth, amid increases in volume and prices. Volumes in the Foods business dropped, but Unilever offset it by raising prices. Emerging markets recorded 8.0% underlying sales growth, driven by strong volume growth in Asia and price growth in Latin America. Unilever recorded margin improvement due to its various cost-savings initiatives. During H1 2016, the company undertook steps to shift its product portfolio away from food, which recorded slower sales, to higher-margin personal care products. Earlier this week, Unilever disclosed that it would buy subscription razor company Dollar Shave Club for US\$1bn. This would enable Unilever to increase its presence in the expanding market for male grooming products and effectively compete with Procter & Gamble. Given Unilever's fundamentally sound position and the strength of its brands across markets, we remain optimistic about the company's prospects. Therefore, we maintain a Buy rating on the stock.

**Brexit Trading:** Following the Brexit vote the shares have spiked along with all overseas earners as perceived beneficiaries. We retain our long term view but would consider top-slicing many of these including Unilever and consider rotating back into the sector 'Brexit losers' including engineers, some construction companies and suppliers. It maybe a little early to consider the property companies but there will be value. Speak to your broker for further details.

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