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Breakfast News AIM Breakfast: Bellway, Ryan Air

Markets
Europe
The FTSE-100 finished yesterday's session 0.76% higher at 7,000.06, whilst the FTSE AIM All-Share index closed 0.35% worse-off at 823.31. In continental Europe, the CAC 40 index ended the day at 4,508.91 and the DAX closed at 10,631.55.
Wall Street
In New York, the Dow Jones rose 0.42% to 18,161.90, the S&P-500 added 0.62% to end at 2,1339.60 whilst the Nasdaq gained 0.85% to finish at 5,243.84.
Asia
In Asian markets this morning, the Nikkei 225 was up 0.21% at 16,998.40, while the Hang Seng gained 0.66% to 23,394.39.
Oil
In early trade today, WTI crude was up 0.99% to $50.79/bbl.

Headlines
Major pension plan shelved by government
The government has given up on plans to allow pensioners to raise cash through selling their annuities to insurance companies. The idea was initially brought to light within the March 2015 Budget by the then Chancellor George Osborne as part of his plan for "pension freedoms". Despite coming to the conclusion last December that the plan would come into affect next April, the government has since changed its mind. It addmitted that several pensioners might be lured into making the wrong decision.

Company news

Bellway (LON:BWY, 2,373.84p) - Buy
Bellway, the UK housebuilder, yesterday announced its preliminary results for the year ended 31 July 2016 (FY2016). During the period, the Group sold 8,721 homes, up +12.5% at an average selling price of £252,793, up +12.9% against comparable period (FY2015). This has resulted revenue to advance +26.9% to £2.2bn, while operating margin (before exceptional items of £17.3m profit from Barking Riverside interest disposal) improved by +1.6% to 22%. Pre-tax profit therefore jumped by +40.6% to £497.9m and consequently, EPS grew by +42% to 328.7p per share. During the period, net asset value per ordinary share has increased by +18.4% to 1,522p and return on capital employed rising by +4.3% to 28.2%. The Group contracted 9,555 new plots during the period. Net cash at the period-end stood at £26.5m (end-FY2015: net bank debt of £38.5m). Bellway's Chairman, John Watson commented "Bellway has invested significantly in high quality land opportunities and infrastructure over recent years. As a result, with its strong balance sheet and structure of nineteen operating divisions, the Group is well placed to deliver additional value for shareholders through further disciplined volume growth in the current financial year." The Group proposed to pay a final dividend of 74p per share, taking full year dividend of 108p, up +40.3%.

Our view: As previously reported in August, Bellway delivered excellent full year results, achieving record volume and operating margin and confidently hiked the dividend up by +40%. Notwithstanding the Brexit vote, housebuilding sector continue to perform strongly, driven by the strong market fundamentals, which are a result of the continuing supply-demand imbalance, low interest rates, government incentives and a 'business-as-usual' attitude by mortgage lenders, altogether keeping customer demand high. However, London is an exception, where the Group's revenue and completions have both fallen slightly to 21% (FY2015: 24%) and 14% (FY2015: 19%), respectively, although the Group said demand in London remains strongest in more affordable locations. Post the period, in the 9 weeks since 1 August, average reservations per week stood at 162, up +9% compared to the same time last year. This has resulted order book to further expand to 4,701 homes (4 October 2015: 4,432 homes), with a value of £1,159.3m (4 October 2015: £1,032.9m), as at 2 October, with sales prices on reservation in line with or slightly ahead of expectations. Brexit has created some uncertainty, nevertheless, as an experienced housebuilder who has been operating in a sector that is recognised to be viciously cyclical, Bellway has strengthened its balance sheet and retained a strong cash reserve at the period-end in order to maintain flexibility to adapt rapidly to any change in market conditions. Given Bellway's continuing confidence for FY2017, along with a £1.2bn forward order book, the likelihood of 'lower for longer' UK interest rates as well as the ability to take advantage of a current supportive environment with its strong land bank, Beaufort maintain its BUY rating on the shares.

Ryan Air (LON:RYA, 12.30p) - Buy
Ryanair has reduced its full year net profit guidance by 5% from a previous range of €1.375bn - €1.425bn to a new range of €1.30bn - €1.35bn. The primary cause of this slightly lower growth in full year profitability is the double digit fall of Sterling post Brexit which will reduce H2 average fares by between 13% to 15% as opposed to the previously guided 10% to 12%. Ryanair confirmed that its H1 fares were marginally weaker at -10% compared to previously guided -9%. However, these lower fares will be partly offset by a better than expected cost performance. Ryanair now expects full year ex-fuel unit costs to decline by 3% compared to previously guided 1%. Ryanair also expects full year load factor to be 1% better than guided at 94%, and now expects that full year traffic will increase to 119m, which is 12% growth on last year's 106m customers.

Our view: The recent sharp decline in Sterling post Brexit (which accounts for approx. 26% of Ryanair's FY17 revenues) will weaken H2 yields by slightly more than the Company had originally expected. While higher load factors, stronger traffic growth and better cost control will help to ameliorate these weaker revenues, it is prudent now to adjust full year guidance which will rise by approx. 7% (over FY 2016) rather than its original guidance of 12%. This decline is primarily due to the impact of weaker Sterling on our H2 fares. This revised guidance remains heavily dependent upon no further weakness in H2 fares (-13% to -15%) or Sterling from its current levels (€1 = £0.9050). The Company have raised traffic guidance from 117m to 119m for FY16 (FY15: 106m). This, and the Company's ex-fuel costs decline, will put added pressure on competitors and we therefore retain our Buy stance on the Company.