Associated British Foods PLC

17:15 05 Nov 2019

FTSE 100 closes modestly higher as US stocks remain subdued after peaking

- FTSE 100 index closes 18 points firmer
- US stocks slip back from record highs
- AB Foods heads blue-chip gainers

5.15pm Dull Footsie performance
The FTSE 100 index closed higher after a fairly subdued session on Tuesday with US stocks happy to consolidate around recent record levels awaiting more news on trade talks.

At the close, the UK blue-chip index was up 18.39 points, or 0.3% at 7,388.08, about midway between the session high of 7,402.69 and the day's low of 7,369.79.

On Wall Street, around London's close, the Dow Jones Industrials Average was up 22 points, or 0.1% at 27,484, slipping back after opening at new all-time highs, while the broader S&P 500 index shed 0.1% after reaching another new peak on Monday.

Connor Campbell, financial analyst at Spreadex commented: "The markets didn't have that much in them this Tuesday, trading predicated on the vestiges of Monday's surge of trade optimism."

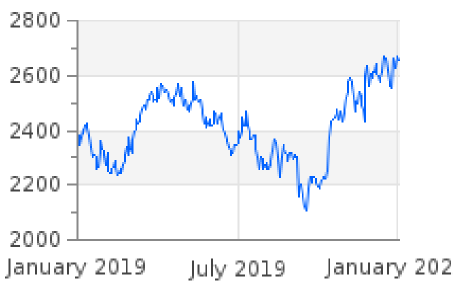
He added: "Closing Monday at an all-time best, the Dow Jones decided to put up its feet on Tuesday. The US index could only muster a 0.1% increase, keeping it from hitting 27500. It may need to wait for another trade deal update if it is to make any further serious strides."

4.00pm: Sterling slips back
Despite sterling relinquishing ground this afternoon to the dollar, the Footsie's advance has run out of steam.

Price: 2682

Market Cap: £20.59 billion

1 Year Share Price Graph



Share Information

Code:		ABF
Listing:		LSE
52 week	**High**	**Low**
	2704.27	**2078.81**
Sector:		**Food & drink**
Website:		**www.abf.co.uk**

Company Synopsis:
Associated British Foods is a diversified international food, ingredients and retail group with sales of £10. 2 billion and 97,000 employees in 44 countries.

action@proactiveinvestors.com

Entering the final half-hour of trade, London's index of heavyweight shares was up 14 points (0.2%) at 7,383.

On the foreign exchange markets, the pound, which had been up a quarter of a cent against the US dollar earlier today, was down by one-tenth of a cent at US$1.2872.

Among the blue-chips, Primark owner Associated British Foods PLC (LON:ABF) was the best performer, up 5.8% at 2,379p, as the outlook statement in the release of its full-year results was not as gloomy as some had feared.

"For all Primark's success, it's bumping up against the side of the tank in its more established markets. That means future growth is pinned on Primark's expansion in the US, and it seems the American dream is gaining traction. The Brooklyn store seems to be doing very well, and the group's confident enough to open two further shops next year," said Sophie Lund-Yates, an equity analyst at Hargreaves Lansdown.

"All-in-all, Primark's performance is impressive; however, within the UK, plans to open new stores can't continue forever, which makes the US plans even more important. The signs so far are good - with US appetites for ABF's discount fashion far from sated - but it's important we see that demand stays put," she added.

2.45pm: Dow Jones hits all-time intra-day high
Although the Dow Jones did not open as high as had been expected an hour or so earlier, it still hit a new intra-day high.

The 30-share index was up 32 points (0.1%) at 27,494. The S&P 500 climbed 11 points to 3,078.

Back in the UK, the FTSE 100 was taking another run at 7,400; it is currently three points short at 7,397, up 27 points (0.4%) at 7,396.

Fashion firm Next PLC (LON:NXT) was doing its bit to nudge the top-shares index to 7,400, rising 0.1% to 6,556p but shareholders might have expected a bit more enthusiasm for the stock after UBS cranked up its price target to 7,200p from 6,300p.

Among the mid-caps, shareholders of Micro Focus International plc (LON:MCRO) had even more reason to feel disgruntled as the shares retreated to 1,023.8p from 1,030p overnight despite Goldman Sachs upgrading the stock to 'neutral' from 'sell'.

The same broker made the same upgrade to oilfield support services group John Wood Group PLC (LON:WG.), and the share price surged 3.1% to 377.6p.

1.20pm: Market marks time
Little is happening in London in the lunchtime trading session, with traders not especially moved by the prospect of a firm start on Wall Street.

The FTSE 100 is within spitting distance of 7,400 but seems disinclined to expectorate, hovering around 7,390, up 21 points (0.3%) on the day.

In the US, spread betting quotes suggest the Dow Jones will open around 60 points higher than last night's close of 27,462 while the broader-based S&P 500 is expected to open at around 3,084, up 6 points.

Traders stateside are waiting for US ISM non-manufacturing data.

"This print is always significant as the US economy is arguably the most service-driven economy of all the major economies and therefore the ISM is very valuable in gauging the economic health of the US," said Adam Seagrave, the head of global sales trading at Saxo Markets.

"An estimate of 53.5 leaves the potential for a small surprise to the upside and a number that would be a significant beat on the prior month. This would continue to fuel the current risk-on sentiment that has already taken hold of markets following the rumoured US roll-back of Chinese tariffs this morning," he added.

12.15pm: Sterling's recovery dampens enthusiasm for blue-chips
The FTSE 100 is slowly relinquishing earlier gains as the pound makes a recovery against the dollar on forex markets.

The blue-chips index was up 20 points (0.3%) at 7,390, some 12 points below its high point for the day.

Sterling was up by around a quarter of a cent against the US dollar at US$1.2907 - a rise that does not play well with many of the big dollar earners in the Footsie.

The mid-cap FTSE 250, whose constituents are less likely to be fussed about a recovery in the value of sterling, trimmed earlier losses to around 13 points (0.1%) at 20,236.

Of the mid-cap companies that have made announcements today, engineering group Weir Group PLC (LON:WEIR) has fared the best, despite issuing a mild profit warning.

The shares were up 2.1% following the investors' conference call that followed this morning's interim management statement.

"Having previously guided to the bottom of its original £55-95mln range for FY19 [full-year 2019] O&G [oil & gas] profits, Weir is now guiding profits to be well below that; we estimate £30-35mln so that's a 40% downgrade to O&G profits with consensus currently at £54mln," said Liberum Capital Markets, which stuck to its 'hold' rating and 1,450p price target.

Today, we have released our Interim Management Statement for Q3 2019.

— The Weir Group (@weirgroup) November 5, 2019 11.15am: The Footsie moves into consolidation mode
The Footsie has largely traded sideways at its highest level since the release of the UK services activity data for October.

London's index of big-cap shares was up 24 points (0.3%) at 7,394, after the Purchasing Managers' Index (PMI) survey returned a slightly higher-than-expected reading of 50.0, up from 49.5 in September.

The market consensus forecast had been for a reading of 49.7.

"Under normal circumstances such a slight up-tick would be seen as inconsequential; however, against a backdrop of arguably the most acute political uncertainty since the English Civil War, such a level of confidence in the service sector, the UK's biggest economic engine, is a cause for significant optimism," said Andy Scott of REL Capital, hitting the hyperbole button really hard.

Samuel Tombs, as befits his name, took a less excitable view of the data. The chief UK economist at Pantheon Macroeconomics opined that Markit's survey is best seen currently as a barometer of business confidence, rather than as a reliable guide to growth in gross domestic product.

"The services PMI averaged 50.5 in Q3 [the third quarter] and was consistent on past form with a modest quarter-on-quarter fall in services sector output of about 0.2% but we know from official data up to August that services output likely rose at a solid 0.4% rate. This divergence partly reflects the fact that the PMI excludes output in the distribution and public sectors, which rose at year-over-year rates of 1.8% and 1.5%, respectively, in August," Tombs said.

"The PMI also is excessively sensitive to firms' general concerns about political risks; it has been consistently too downbeat relative to the official data since it became clear in Q4 2018 that MPs would not ratify the first Withdrawal Agreement.

"Notwithstanding these limitations, the services PMI shows that the PM's new Brexit deal has received a lukewarm reception from firms," Tombs said.

If the services sector is showing scepticism about the new Brexit deal, the motor trade seems to be even more pessimistic.

New car sales were 6.7% lower in October than they were in October 2018, which marked the seventh year-on-year decline in the last eight months.

Private new car sales fell 13.2% from a year earlier while fleet sales were flat, the Society of Motor Manufacturers and Traders (SMMT) revealed.

"The SMMT reported that new car sales fell 6.7% year-on-year to 143,251 vehicles in October. This marked a return to the weakened year-on-year performance in new sales that has largely dogged the car sector this year after September's gain of 1.3% had marked the first increase since February," said Howard Archer, the chief economic advisor to the EY ITEM Club.

"However, it would be misleading to consider September's rise as an improved performance and it must be put into perspective. The 1.3% rise came from an exceptionally low base as new car sales had plunged 20.5% year-on-year in September 2018 when they were hit hard by a shortage of new cars available for sale caused by manufacturers struggling to deal with the implementation of new emissions rules. Indeed, September's sales of 343,255 vehicles had been the second weakest performance for the month (after 2018) since 2011.

"Consequently, new car sales were down 2.9% year-on-year over the first 10 months of 2019 at 2,005,522 vehicles," he added.

The grim news must have been widely expected as constituents of the car dealing sector were all over the shop, with Marshall Motor Holdings Plc (LON:MMH) down 0.7%, BCA Marketplace PLC (LON:BCA) and Inchcape PLC (LON:INCH) both down 0.1%, Pendragon PLC (LON:PDG) up 0.6% and Lookers PLC (LON:LOOK) unchanged.

9.45am: Service PMI hits par in October
The UK service sector registered no change in output in October from September, according to IHS Markit / CIPS.

The Purchasing Managers' Index (PMI) survey returned a reading of 50.0, the level that marks the crossover point between expansion and contraction of activity, and was up from September's level of 49.5.

Service providers reported lower intakes of new business for the second month running in October, IHS Markit said.

New work has now declined seven times in the first ten months of 2019, the market research group noted. The rate of contraction in the latest period was the fastest since April, but modest overall, it added.

Companies continued to link lower new work to uncertainty surrounding Brexit.

The ongoing decline signalled by the three surveys leaves the main PMI gauge of output deep in territory that would normally be associated with looser policy from the Bank of England, suggesting a greater likelihood of the next move in interest rates being a cut. #BOE 10/ pic.twitter.com/g5RE8r383i

— Chris Williamson (@WilliamsonChris) November 5, 2019
"The UK PMI surveys collectively indicated a further overall decline in private sector output in October. Contractions have now been recorded in four of the past five months, marking the worst spell since 2009 during the global financial crisis," said Chris Williamson, the chief business economist at IHS Markit.

"The seasonally adjusted IHS Markit/CIPS 'all-sector' Output Index rose from 48.8 in September to 49.5 in October, signalling a weaker rate of contraction, but the volume of new business fell at a pace similar to that seen in September.

"The October reading is historically consistent with GDP [gross domestic product] declining at a quarterly rate of 0.1%, similar to the pace of contraction in GDP signalled by the surveys in the third quarter. While official data may indicate more robust growth in the third quarter, the PMI warns that some of this could merely reflect a pay-back from a steeper decline than signalled by the surveys in the second quarter and that the underlying business trend remains one of stagnation at best," Williamson concluded.

The FTSE 100, which had been loitering around the 7,400 level prior to the release of the PMI data, showed little reaction, easing back to 7,394, up 24 points (0.3%) on the day.

9.25am: Footsie fired up by positive response to AB Foods' update
Primark owner Associated British Foods PLC (LON:ABF) led the Footsie higher on Tuesday morning.

The top-shares index was up 25 points (0.3%) at 7,394, after an indifferent start, with the performance galvanised by a positive response to the full-year results from AB Foods.

The conglomerate's shares rose 5.4% to 2,371p as it hailed a "resilient performance" in the year just ended.

"Shares have risen … as the numbers are slightly better than expectations but also because the 2020 outlook seems more positive than before. This is down to sugar prices in the EU recovering, while Primark looks set to benefit from lower cost of goods and overheads while still expanding floor space. At the same time, the group says it's well prepared for the various forms of Brexit outcomes and does still expect a slight margin compression for the whole year chiefly due to currency movements," reported Helal Miah, an investment analyst at The Share Centre, which has a 'hold' recommendation on the shares.

It's Bonfire Night in the UK today so it is an appropriate day for ciggies maker Imperial Brands PLC (LON:IMB) to issue its full-year figures.

The shares edged 1.1% higher to 1,756p after the company said it would reduce its investment in vaping products for at least the coming year as it reported a decline in underlying earnings.

"It's been a terrible year for Imperial Brands as it suffered from intense competition, political backlash, regulatory uncertainty and market concerns about the health risks from vaping," said Russ Mould, the investment director at AJ Bell.

"Vaping and other 'next generation' products were meant to be the future for Imperial Brands but growth has been slower than expected. That's forced investors to question the future earnings potential of the business.

"Imperial Brands has used the word 'resilient' nine times in its full-year results as if to try and convince the market that its business hasn't fallen over as a result of recent problems.

"Sadly it is going to take a lot more than reassuring words to win back the market's favour," Mould suggested.

Our FY19 results presentation starts at 9am GMT. The slides are available to view on our website now: https://t.co/PdcGkClEkU #ImperialBrands $IMB pic.twitter.com/hjfaE9zccT

— Imperial Brands PLC (@ImperialBrands) November 5, 2019

8.40am: Damp squib

The FTSE 100 index failed to spark ahead of Bonfire Night as trade optimism gave way to lingering recessionary fears.

Those worries may be further exacerbated in less than an hour when we receive the latest UK purchasing managers' data, which is likely to lay bare the service sector's struggles.

The expected reading of below 50 would keep Britain's main driver of growth firmly in contraction mode. Analysts are expecting the mildest of improvements, from 49.5 to 49.6 month-on-month.

The blue-chip index opened just 5 points to the good at 7,375.12, unmoved by Wall Street's record close on Monday.

The morning's big mover was Associated British Foods (LON:ABF), which saw a better than expected third-quarter boost from its grocery and Primark clothing divisions. The FTSE 100-listed stock advanced 4.5%.

With Sino-American trade hopes rising, the miners were also on the march, led by Glencore (LON:GLEN), which was up 1.9%.

6.40am: No great fireworks

The FTSE 100 index should extend gains on Tuesday morning, but no great fireworks are expected ahead of Bonfire Night.

London's blue-chip benchmark is seen climbing around 30 points at the open, or around 0.4% according to FTSE futures, to add to the 67 points a day earlier that saw a move higher along with most global equity indices on global trade optimism.

The pound slid below the 1.29 mark against the US dollar at the start of the week and could be moved by today's services industry PMI survey that comes after manufacturing surprised on the upside.

Analysts have pencilled in a reading of 49.6 for the services PMI today, which suggests the sector remains below the level which distinguishes expansion from contraction.

Overnight, US indices continued to push to new highs as Wall Street picked up on US-China trade optimism.

The Dow Jones closed 115 points or 0.4% higher at 27,462.11, while the broader S&P 500 added 0.4% and the tech-heavy Nasdaq rose 0.6%.

US commerce secretary Wilbur Ross said that the US government will "very shortly" issue licences to US firms seeking to do business with China's tech giant Huawei, thawing a previous area of tension.

There were also reports that as part of this "phase" of a trade deal, China wanted December's and September's tariffs to be taken off the table, with the White House said to be debating whether to remove some existing tariffs as a concession to seal a partial deal and Ross also saying it was possible that tariffs might not be levied on EU vehicle imports.

These comments were understandably welcomed by investors around the world, said market analyst David Madden at CMC Markets.

"The update did a lot to ease dealer's nerves about a possible trade spat between the US and the EU," said Madden.

"During the course of Trump's trade dispute with China, he suggested he could turn up the heat on Brussels, but remarks yesterday helped chip away at some of those fears."

Led by the automotive sector, Europe's STOXX 600 jumped 1% to its highest level since August 2015.

Clothes and train tickets
A few big names are putting out results and trading updates on Tuesday, including final numbers from Associated British Foods PLC (LON:ABF), but no real fireworks are seen here as the Primark owner is presumed to have said it all in its September pre-close update.

The conglomerate said year-end net cash would be around £900mln, with the anticipated decline in the sugar division offsetting strong profits brought in by the grocery section and Primark.

Investors seem to believe the group has been sinking like many other UK competitors, as the fast-fashion branch, which brought in two-thirds of ABF's total profits last year, reported a 2% decline in like-for-like sales in the half-year results.

The outlook statement should be the most interesting bit ahead of the key festive season

Over at Trainline PLC (LON:TRN), shareholders will hope to find the rail tickets company on track meet its expected "low to mid 20% range" revenue growth for the full year, when it reports its third set of results as a listed company on Tuesday.

Ticket sales continue to shift online and the use of electronic tickets rises, which boosted its UK consumer revenues 34% in the six months to 31 August.

Floated at 350p in May, the shares put on a small head of steam but have dropped off since September, when the online ticket seller said it expected UK sales to be "significantly lower" in the second half of the year, as a result of the annualisation of new revenue streams.

Broker Peel Hunt said there are "known unknowns" in the Trainline's future, including the Williams Reviews of UK railways this autumn, the potential for Uber to expand its nascent train business, and the advance of the "Reserve with Google" feature on Google Maps.

Imperial still smouldering
Steam of a different type is likely at Imperial Brands PLC (LON:IMP), though maybe it's from investors' ears as they nurse losses of around 35% over the past year, the latest spark coming from September's profit warning over US vaping worries.

Revenues at the Lambert & Butler maker are expected to grow just 2% in the year with flat earnings per share amid tougher trading in its newly reorganised Africa, Asia and Australasia division, with figures for the segment likely to be watched closely after the firm highlighted more competition in Australia which could offset its results in Europe and the Americas.

Investors will also be on the lookout for any signs of a change in strategic direction after IMP's long-serving chief executive, Alison Cooper, announced she was stepping down in early October, as well as any developments in its new generation products (NGPs) which includes products such as vapes.

"In our view, the market lacks confidence in [Imperial's] ability to grow an NGP brand profitably, and focus is now likely on disposal progress and what new management could do", said analysts at UBS, although they conceded that neither of these issues were likely to be addressed in the results.

As WeWork wobbles, we look at rival IWG
Serviced office specialist IWG PLC (LON:IWG) will report on its third-quarter on Tuesday, a day after revealing another international deal as part of a new franchise strategy.

IWG agreed to sell its 38 office assets in Switzerland for £94mln to two family-owned banking firms and the FTSE 250 group will now provide ongoing services and support as part of a franchise agreement.

The Swiss deal comes after similar moves in Japan with Tokyo-based TKP in the first half and another with TKP in Taiwan in the third quarter.

The company formerly known as Regus sold its Japanese business for £320mln, helping it to an interim profit after tax of £294.9mln, while the Taiwan deal was for £22.7mln.

Analysts at Credit Suisse told clients the moves were part of IWG beginning an "evolution towards a franchise model with consequent benefits to financial leverage, return on capital, volatility and, in our view multiples".

Shares in IWG had doubled in the first eight months of the year but since US rival WeWork's IPO-related wobbles in early September, IWG stock has slipped around 8% before the Swiss deal so boss Mark Dixon's comments about the sector will be closely followed.

With first-half revenues from "pre-2018" properties growing 5.2% but profit before tax on continuing operation down 4%, broker Peel Hunt expects revenue growth of circa 3% in the third quarter.

Significant events expected on Tuesday 5 November:
Finals: Associated British Foods PLC (LON:ABF), Imperial Brands PLC (LON:IMB), UP Global Sourcing Holdings PLC (LON:UPGS)

Interims: Castleton Technology PLC (LON:CTP), Mxc CapitalLtd (LON:MXCP), Trainline PLC (LON:TRN)

Trading statements: IWG PLC (LON:IWG), Weir Group PLC (LON:WEIR)

Economic announcements: UK, EU and US PMI services, UK BRC shop price index, UK balance of trade, US non-manufacturing ISM, EU producer prices

City headlines:
Financial Times

- An increasing number of large listed companies are approaching firms outside the Big Four after changes designed to shake up UK auditing after accounting scandals.
- Freeport-McMoran to introduce machine learning technology at its mines to increase annual copper output by 90,000-tonne.
- German motor executives have demanded government support to increase demand for electric vehicles as the production of Volkswagen's first mass-market battery-powered car began on Monday.
- The potential $2 billion listing of Hyundai's credit card unit looks set to slip towards 2021 as the South Korean group tries to boost its value.

The Times

- Advisers to the billionaire Barclay family have insisted that the tycoons are only days away from agreeing a crucial £150 million of financing needed to fill a funding hole at their Shop Direct online retail business.
- Under Armour lost $1.3 billion in market value yesterday after the company admitted that its accounting practices had been under investigation for two and a half years.
- The world's biggest ride-hailing company beat Wall Street's expectations for revenue growth in the third quarter last night, but a crucial miss on the number of its active users sent Uber's shares downwards in after-hours trading.
- Millennials will pay more in taxes yet receive less in state services than any generation since the war, a new analysis has forecast.

The Guardian

- UK household debt soared by a third to record levels in the past decade as workers struggled to cope with the impact of a prolonged squeeze on wages, a new report has said.
- Goldman Sachs is offering prospective parents on its staff up to $20,000 (£15,500) to cover the costs of extracting eggs or purchasing donated eggs as part of its latest efforts to boost equality and close the gender pay gap at the Wall Street investment bank.
- A salmonella scare is threatening to create a new hummus crisis after one of the UK's leading suppliers of the chickpea-based dip was forced to extend a product recall.
- Amid antitrust investigations, Capitol Hill hearings, and a generally poor reputation, Facebook announced it is reinventing itself with a rebrand to a new multicoloured, all-caps logo across its services, proudly telling users that they are services "from FACEBOOK".

The Telegraph

- Staff at Sir Martin Sorrell's old firm WPP are queuing up to work for him again at his new venture S4 Capital after he was forced out of the company in a dramatic row last year, the advertising mogul has said.
- Desserts chain Creams has shrugged off the gloom engulfing British restaurants to post a surge in sales and profits.
- The Communications Workers Union has revealed its latest strategy in industrial action was to refuse to deliver postal votes or campaign material unless the Royal Mail Group (LON:RMG) agrees a new deal on jobs and conditions.

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