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Morning Wrap

Today’s Newsflow

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easyJet FY19f PBT to fall by c.5%

Recommendation: Buy
Closing Price: £13.26

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The carrier released its FY18 pre-close statement this morning. While the tone of release was positive we do not see that there is enough in the statement to hold FY19 pre-tax forecasts at their current levels. With regards FY18 related comments, H2 yields are expected to close out +5% underlying; this compares to our +4.3% ex-Tegel so a bit better. However, ex-fuel costs guidance is now higher than previously forecast by the company at +3.8% yoy (vs 3%) due to disruption costs; we have had +3.5% in our numbers so this is worse.

Overall, per-tax guidance has changed from £550-590m to £570-580m, so a small revision to the upside of their mid-point from £570m to £575m, however, we will need to pull our previous forecast back from £602m currently to the upper end of the new given range. As for the FY19 year, the surprise here was the commentary that H119 yields are expected to be down 'low to mid-single digits' with yoy one-off comps less favourable and with a shift of Easter into H2. As such, we will be changing the bias of pricing trends more into H2. More positive is the fact that ex-fuel costs are expected to be flat next year, with this comparing to our current forecast of +0.7%. However, putting in the current fuel forward curve into our model adds £40m to our cost base and matches management's fuel bill guidance of £1.48bn for next year.

As such, we expect to be taking circa 5% off our current £663m pre-tax forecast for next year. As such, we expect our own and consensus numbers to be pulled back for FY19.

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UK Economic View Consumer confidence dips; further uncertainty likely given Brexit impasse

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As has been the case for some time, a wide difference in opinion continues to exist within UK consumers about their own personal financial situation and views about the wider economy. According to the latest index from GfK this morning, headline consumer confidence dipped by two points to -9 in September. It has hovered around this level since the summer of 2017 and was at a similar level in the immediate aftermath of the Brexit referendum.

Sentiment towards the general economic situation over the next twelve months remained deeply negative (-27), having fallen in the latest reading. Consumers' views of their own personal financial situation, both over the past twelve months (+1) and over the coming twelve months (+5) fell by three points in September but remain ahead of levels of a year ago. The index measuring the climate for major purchases stayed steady at +6 in September. This indicator – a measure of demand in the housing market - has remained surprisingly resilient in light of the wider uncertainty around the UK economy.

Clearly, the ongoing Brexit uncertainty is the most pressing issue for the UK economy overall, but with employment growth continuing and unemployment at a multi-decade low, the UK consumer has not been severely impacted yet. Given the current impasse in the negotiations post-Salzburg, uncertainty among consumers can only increase over the coming months.

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IRES REIT Mooted stamp duty increase would negatively impact values

Recommendation: Hold
Closing Price: €1.47

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Rumours continue to abound government and opposition benches around the idea of increasing the stamp duty for large (>5 units) residential property investments to align with that of commercial property in the Budget on October 9th. Currently, the residential investment sector enjoys a lower rate of 2% of the acquisition price versus 6% for commercial. When the government increased the rate of stamp duty on commercial property in last year's Budget, there was a direct negative impact on valuations of c.3.8%. A similar outcome would be expected for residential investment valuations.

The potential policy move comes as the Irish private rented sector (PRS) continues to gain further international attention and is fast becoming a mainstream investment sector for institutional investors. CBRE recently estimated that there is upwards of €5bn of capital currently chasing investment in Ireland. Given the strong expected capital flows, the government are positioning to increase its tax take from such transactions, having faced considerable populist pressure on the taxation of investment funds in recent years.

Our analysis shows that the impact on net capital values of increasing the rate of stamp duty by 4% for larger residential property investments (assumed for schemes of more than 5 units) would be in the region of 3.6% to 3.8% for direct unlevered property. This aligns with the impact on commercial property that occurred in Q4 2017. For property funds with debt, such as IRES with a 33% LTV (as of June) the impact would be higher (for example the commercial stamp duty increase in 2017 pulled Green REIT values by c.5.1% and Hibernia REIT values by 5.0%). We estimate the impact on capital values could be as high as 4.8% to 5.0% for IRES REIT in Q4 2018 valuations.

A move to increase stamp duty on residential investments would be the latest such policy shift in the market in three years at a time when supply remains at an all-time low for residential rental stock. This will be seen as a further barrier for investment by institutional investors thus potentially impacting future supply. Such moves create uncertainty for investors and may deter institutions from increasing their critical role in the delivery of new residential accommodation in the undersupplied Irish rental market.

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Irish Banks Media commentary link Bankinter as potential partner for An Post

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Press reports this morning note that Bankinter has bought the banking operations of EVO Banco in Spain (based in Madrid) and its consumer credit card affiliate in Ireland, AvantCard, from US owned Apollo (who bought it for c.€60m in 2013). Avantcard has a €280m book and c.151,000 Irish customers and distributes with a number of players here including An Post. The articles note that Bankinter is looking to grow consumer finance internationally, so are suggesting it could be a potential partner for An Post on its recently announced potential entry into the mortgage market. The articles note Bankinter offers mortgages in its home market at 2.0% whilst we note typical new business rates in Ireland are in a 2.3-4.5% range.

Elsewhere, we note the Central Bank yesterday published its quarterly update on the CCyB, which has been retained at 1%. The Bank provided a new dashboard on how its thinks about the CCyB, something we will closely monitor in time. The 1% buffer was first announced in July and will be implemented from July next year.

It's a bit of a leap, in our view, but the Bankinter deal for AvantCard won't stop people speculating on An Post's mortgage plans in the short term, notwithstanding that Bankinter is probably more focused on Evo's €2.7bn loan book, 1m customers and its focus on technology. We would note that Spanish mortgage risk weights average 15% vs c.40% in Ireland (on new business). Any new entrants here would have to work off Irish models or standardised risk weights, so the starting point would be RWA densities of 35-40%. We estimate a 2.0% interest rate on 35-40% risk weights generate ROEs of 8.5-9.5% vs 22% on a 15% risk weight. In addition, the economics with An Post would be split, lowering that 8% ROE. It doesn't strike us that Bankinter built a €55bn loan book targeting mid-to-high single digit ROEs!

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