N° 434
13 November
2017

BONHÔTE
BANQUIERS SEIT 1815

FLASH
BOURSIER

US TAX REFORM PLANS LESS AMBITIOUS THAN EXPECTED

Highlights:

US tax reform fails to garner unanimity

Drop in Swiss real estate index

Overview

One of the factors driving US equities northwards since Donald Trump's election in November 2016 has been the hope of historic tax cuts for corporations and households alike. It now turns out that the tax reform could be far less ambitious than had been expected. Once again interminable discussions between the various parties about every single little point are holding things up. The resulting mood of uncertainty has triggered a modest correction on leading market indices as well as a dip in the dollar. This weak patch is also affecting sovereign bond markets, as long-term yields have edged up by a few basis points everywhere. Also affected are high-yielders (as reflected in widening credit spreads) and even bitcoins, whose already erratic fluctuations worsened towards the end of the week with a peak at USD 7,800 and retracement down to USD 6,000.

The bill making its way through Congress has by no means garnered unanimity, even within the presidential Republican majority – chiefly because it would entail a sharp drop in tax income, which could in turn worsen the public deficit amid rising interest rates, ultimately leading to an even heavier federal debt burden. Republican senators have put forward their own tax plans delaying the reduction in the corporate tax rate (from 35% to 20%) until 2019, whereas the House bill instigates this measure from 2018, though gradually. Meanwhile, the Democrat opposition (which has been isolated from discussions over these two rival bills) has criticised the tax reform as mainly favouring multinationals (i.e. a small number of companies) and the wealthiest households.

In the near term, we do not think a sharp correction is likely, despite the occasional downswing. In Switzerland, the real estate index has contracted for the third consecutive time, now reaching a critical level. It remains to be seen whether it can resist the rebalancing that will be effected towards the end of this month when a new firm is floated.

The SMI was starved of positive news last week and, amid the uncertainty, staged a pause. Support remains at 9000 points.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	1.00	1.16	9'134.16	3'593.76	13'127.47	5'380.72	7'432.99	2'582.30	6'750.94	22'681.42	1'128.49
Trend	➡	➡	⬇	⬇	➡	⬇	⬇	➡	⬆	⬆	➡
%YTD	-2.34%	8.41%	11.12%	9.22%	14.34%	10.66%	4.06%	15.34%	25.41%	18.66%	30.87%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Sunrise
(ISIN: CH0267291224, price: CHF 83.70)

Sunrise has reported quarterly results. The remarkable surge in net profit, up from CHF 22m to CHF 442m, stemmed from the sale of base stations totalling more than 2,200 masts. This sale reduced debt by CHF 1.15bn.

Above the line, Sunrise saw more call plans in all areas except prepaid mobile services. But as with other carriers, revenue fell by over 3% owing to pressure on prices and competition.

Targets for the final quarter were reiterated. The group is on course to pay a dividend around CHF 4, suggesting a yield of 4.7%.

In our opinion, the share has little upside (our target is CHF 85-90) but its generous dividend limits downside risk, which we put at around CHF 75. Sunrise is an income stock worth holding on to.

Alibaba
(ISIN: US01609W1027, price: USD 186.41)

The group booked a record number of transactions for its Singles' Day on 11 November, which has become the largest commercial event in the world. In the space of 24 hours, 26 billion sales were conducted on the e-commerce giant's Taobao and Tmall platforms. This represents 40% more than last year. The value of these transactions exceeds the total for Black Friday and Cyber Monday sales in the US. Alibaba definitely does not seem affected by slowing growth in the Chinese economy.

Recently the group also reported a more than twofold increase in net profit in its latest quarter (USD 2.66bn) on sales shooting up by over 60% to USD 8.3bn. Alibaba also raised full-year guidance on sales. Online retailing in China surged by 25% in the first nine months of the year. Almost half of all Chinese internet users buy something at least once weekly on their smartphone. In the US, this figure is less than one-third.

The share has more than doubled this year. With a market capitalisation around USD 480bn, Alibaba now ranks in the global top-ten for this metric and is no longer far behind Amazon.

Hold with a target at USD 220.

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