N° 437
4 December
2017

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

SIGH OF RELIEF AS US TAX REFORM IS PASSED BY SENATE

Highlights:

Michael Flynn secures plea deal

Trump's first legislative win

Overview

Friday's session was a real rollercoaster of a ride on financial markets as investors piled into defensive assets such as bonds, gold and the Swiss franc, all of which gained ground to the detriment of equities. The trigger for the move was a confession by Michael Flynn, formerly Donald Trump's National Security Advisor, who pleaded guilty to lying to the FBI last January during the latter's investigation into possible Russian interference in the US presidential campaign. The main fear centres on the fact that he might indicate having received orders from Donald Trump personally.

Late-evening approval of the tax reform package by the US Senate on Friday has reassured investors. The bill, which cleared with a skinny two-vote majority, provides for a total USD 1.5 trillion tax cut. Its premise is that stimulating economic growth through more jobs and business investment will ultimately go a long way to filling in the budget deficit (an additional USD 1 trillion over 10 years) as well as offsetting the initial increase in public borrowing.

Following discussions to harmonise the final Senate legislation with the bill approved by the House of Representatives on 16 November, the reform could receive final congressional approval before the end of the year. However, that is not such a simple task. Some congressmen would like to see the administration backtracking on the abandonment of mandatory health insurance (Obamacare), while others dream of having oil drilling authorised again in Alaska. However, we expect common ground to be found. If the bill is signed into law, it would mark Donald Trump's first legislative achievement since his election. For US companies, the tax breaks could result in 5-8% extra net profit.

The crux of the matter is to what extent this prospect is already priced into equities. December is generally a positive month. Even though the global equities index has this year set a record for the number of consecutive monthly gains, in defiance of statistics, we still think an uptrend is intact over the short term. The US economy is in fine form, and non-farm payrolls – due out this Friday – are similarly set to show a positive trend.

Despite price action on Friday, which dented the weekly market performance, we see the upswing soldiering on to 9500 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	0.98	1.16	9'274.55	3'527.55	12'861.49	5'316.89	7'300.49	2'642.22	6'847.59	22'819.03	1'115.94
Trend	↓	→	→	↓	↓	↓	↓	↑	→	↑	↓
%YTD	-4.30%	8.37%	12.83%	7.20%	12.02%	9.35%	2.21%	18.02%	27.20%	19.38%	29.42%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Aryzta
(ISIN: CH0043238366, price: CHF 32.72)

The group has reported summary results for its first quarter ending in October. Sales fell by 5.5% but this was not quite as bad as expected. To blame were currencies, considering that the group reports in euros.

Organic growth was similarly better than expected, in the red at -2.6% versus the market's -3.8%. The North American division, accounting for 45% of sales, encountered some difficulties after a new rival entered the market and a complaint was filed by McKee Foods, who is suing for losses arising from the late supply of goods and other alleged mistakes.

Despite this extraordinary event, Aryzta reverted to positive organic growth in North America after a run of 13 quarters in the red. The new management team are due to make a decision about the equity interest in Picard in the near future. Whether or not it keeps this stake, investors can from now on expect a more clear-cut strategy from the group.

On technicals, last week enabled the share to break upwards of a long-run downtrend line in place since 2014.

Buy with a target at CHF 40-43.

Altice
(ISIN: NL0011333752, price: EUR 6.68)

The share price of Altice, the company founded by Patrick Drahi, is down by a massive 55% since 3 November. To make matters worse, quarterly earnings came in short of estimates, triggering a crisis of confidence in the market. The share has even quoted lower than its IPO price from March 2014.

The main focus of concerns is the group's debt mountain, which stands at almost EUR 50 billion. This is what is really worrying investors. To fund growth in the telecoms sectors of France (SFR), Portugal (Portugal Telecom) and the US (Suddenlink and Cablevision), acquisitions costing EUR 52 billion since 2014, Altice has been borrowing like there's no tomorrow.

To soothe market fears, the group has set in motion a vast reorganisation and has made paying off debt its focus.

The group on Friday announced that it had reached agreement to sell two Swiss subsidiaries for an enterprise value of CHF 214 million. Other disposals could follow. It is reported that Patrick Drahi has resigned himself to selling his subsidiary in the Dominican Republic – which could be valued at approximately EUR 2.5 billion.

We continue to steer clear of the share, considering the damage that could result to Altice's business strategy in the longer run.

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