N° 450
19 March
2018

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
BOURSIER

STRONGMEN DOMINATE THE SCENE

Highlights :

New presidential terms in China and Russia

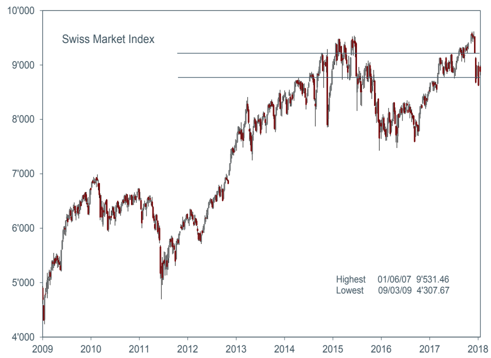
Europe planning to tax digital giants

Overview

In a matter of days, the strongmen of the planet have tightened their grip on power. In China, the unanimous re-election of Xi Jinping by the Party Congress (by 2,970 votes) for another term of office demonstrates the lack of opposition to this politician who has changed the country's constitution so he can be president for life. The election result of Russian counterpart, Vladimir Putin, was almost as startling, as he won more than 75% of the (in this case) popular vote. Even if suspicions of fraud exist, the fact remains that Putin today reigns supreme and is seeking to make Russia once again a linchpin in all major international negotiations. These two leaders doubtless have inspires Donald Trump, who is working ever harder to secure his power. As with the other two leaders, sharing the stage is not an option, as illustrated by the ruthless dismissal of Rex Tillerson, to be replaced by Mike Pompeo – a true believer in the "America First" doctrine. Another example of muscle-flexing.

These situations contrast sharply with the difficulties encountered in Europe to form governments with solid majorities. Germany was without a government for months, Italy seems practically at a dead end, Spain is having to deal with separatist tendencies and the British political establishment is tearing itself apart over Brexit. In the short term, it is difficult to imagine Europe standing united against these powerful blocs that currently seem to be taking over. It will probably take a veritable shockwave to get Europe back on a "war footing" so that it may at least fight to maintain its political and economic place in the world. A first test will take place this week in the form of plans to tax the revenue of digital giants in the country where it is generated. Even if the financial scope of such a project is limited, it would provide a way of responding to the unilateral decisions made by Trump, who has no intention of sharing the fiscal bounty, and who is doing everything he can to repatriate tax revenues and economic activity to the US.

Starting from today, the G20 is meeting in Buenos Aires for a session that is likely to end with confirmation of a solid global growth forecast of 3.9% for both 2018 and 2019. It is also likely to reiterate that protectionism and central bank monetary policies remain the main risks associated with these forecasts.



The SMI continues to trade low in its range, with 8750 points placed as initial support and resistance at 9200 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	0.95	1.17	8'882.53	3'437.40	12'389.58	5'282.75	7'164.14	2'752.01	7'481.99	21'676.51	1'213.14
Trend	→	→	→	→	→	→	→	→	↑	→	→
%YTD	-2.29%	-0.01%	-5.32%	-1.90%	-4.09%	-0.56%	-6.81%	2.93%	8.38%	-4.78%	4.72%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

DUFRY

Dufry AG
(ISIN: CH0023405456, price: CHF 130.35)

Dufty, the leading operator of duty-free stores in the world, last week reported its 2017 results. Judging solely by the share's reaction on Thursday morning, one might have thought the figures catastrophic. True, when a share sinks by as much as 10% on the days the company results are reported, it is often due to a deteriorating business climate, a plunge in margins, a surprise cut in the dividend, or a combination of all three.

Yet Dufry reported 7% growth in revenue, with all regions contributing. Profit wise, EBITDA was up 7.7% and the associated margin inched up by 0.1 percentage points to 12%.

Dufry decided that it would return cash to shareholders in 2018, which is excellent news. However, we think that the sell-off was caused by uncertainty over how much the dividend will amount to. This information will be disclosed on 5 April.

Although growth guidance for 2018 was no better than actual 2017 trend, last week's selling looks heavily overdone.

Buy based on target at CHF 180.

Munich RE

Munich Re
(ISIN: DE0008430026, price: EUR 189.-)

Reinsurance giant Munich Re has raised its earnings guidance for 2018 and is now gunning for net profit of EUR 2.1 – 2.5 billion, topping initial broker forecasts.

The group also sees profit rising to EUR 2.8 billion by 2020. Last years hurricanes Harvey and Irma, and fires in California, hit hard a sector that was already facing thin margins and falling tariffs.

One of the questions in the industry was indeed the scope for insurers to raise their tariffs. Munich Re offered reassuring news, announcing that tariffs had increased during treaty renewal season in January.

The group also announced that it is using its comfortable capital buffer to initiate another buyback, amounting to EUR 1 billion, running between now and the 2019 AGM.

Hold based on target at EUR 220.

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