UNIT Monash: Week Six Newsletter

Hey there <<First Name>>,
We have updates of an international magnitude to present to you for your week six newsletter! This edition covers a variety of different companies listed across Australian, English and United States stock exchanges. Enjoy!

Weekly Market Wrap

AP EAGERS LTD (ASX: APE)

(Bigger is better)

AP Eagers made an all-scrip* buyout offer to Automotive Holdings Group Ltd (AHG) on Friday, April 5. The scrip deal offered 1 AP Eagers share to AHG shareholders for every 3.8 AHG shares they currently hold. If the deal between the two largest car dealerships in Australia is successful, the new enlarged entity could be valued at more than AU$1.8 billion. However, for the merger to be successful it will require both shareholder and ACCC approval first. The merged company would possess a market share of 12 per cent of the new-vehicles dealership market in Australia. The market share of the combined entity would consist of 229 new-car and 68 new-truck and bus dealerships in Australia. The proposal from AP Eagers to acquire AHG comes as no surprise, with AP Eagers already holding 28.8 per cent of AHG shares. The possible merger would position the group to have a significant competitive advantage against smaller players in the market. The possibility of the deal being accepted by AHG shareholders is enhanced by AHG having experienced a period of extended weakness. AHG suffered a AU$29 million hit to its automotive division profits over 2017-18 following industry-wide scrutiny by ASIC on add-on insurance products and excessive commissions earned through financing deals. In conjunction with this loss, last year AHG failed to close a deal to sell its underperforming refrigerated logistics business to Chinese giant HNA for AU$400 million despite a gruelling eight-month attempt. Over the past year, we have seen shares in AHG plummet by close to 50 per cent. However, in response to the proposed merger there was a well-welcomed 21 per cent increase to AU$2.15 at close on Friday. Over the same period, AP Eagers shares have fared better, declining only 17 per cent in the past year and closing at $7.69 on Friday, up more than 5.5 per cent.

*In Australia, an all-scrip bid is a takeover offer where shares are offered partly or wholly in place of legal tender (cash).

JDSPORTS (LON: JD)

(Survival of the fittest in fashion)

JD sports, arguably England's largest sports retailer, has been thriving on the back of the growing athleisure industry. JD has shown outstanding advancement in its share price year to date, soaring 30.1% from £355.40 (AU$653.03) as at January 1, 2019 to close out at £508.40 (AU$934.15) at the end of last week. JD is currently one of only a few of London's High Street fashion retailers to be booming. In context, last month Arcadia began considering job cuts and store closures to help boost its performance while Debenhams signed a £200 million (AU$367.49 million) refinancing deal with its lenders to keep it going. Due to the success of its own company when compared with its competitors, JD has found itself in a unique position to begin buying up other retailers not performing as highly. Last summer JD bought US retailer Finish Line for US$550.16 million (AU$775.40 million). Last month, it offered £90.1 million (AU$165.55 million) to take full control of clothing and shoe retailer Footasylum, which had lost significant worth since its 2017 valuation of £171m (AU$314.20 million). Most recently, JD agreed to purchase Liam Gallagher's fashion brand 'Pretty Green' out of administration for a yet to be disclosed sum. The sportswear chain has acquired the Pretty Green brand, online and wholesale business as well as a flagship store in Manchester, saving 67 jobs.

MCDONALD'S (NYSE: MCD)

(Would you like a side of McAI with your McMeal?)

After close to a 20-year hiatus from mergers and acquisitions, McDonald's has made a monumental return to deal-making in support of its tech-focused strategy. McDonald's is widely considered to be the slow-moving giant of the fast-food industry, having fallen behind other companies including Starbucks and Subway when it came to launching an app for mobile ordering. However, McDonald's announced on March 25 that it would be acquiring personalised data start-up Dynamic Yield for US$300 million (AU$422.85 million). The purpose of the acquisition being to optimize the McDonald's drive-thru, which accounts for roughly 70 percent of its transactions. McDonald's has indicated that the technology is likely to be used to "automatically change menus to display products depending on the weather, time of day, events taking place nearby and recent sales, both locally and around the world". McDonald's is also reportedly considering the use of the AI for automatic number-plate recognition of an approaching customer to personalise the digital menu board based on previous purchases. However, there have been some concerns that if dynamic pricing* is also used, it could be abused by McDonald's. If this occurs we could witness negative downstream consequences in the form of reduced sales, negative word of mouth and an impact on brand image that will be reflected in the share price. On April 1, McDonald's announced another tech investment, spending roughly US$3.7 million (AU$5.22 million) on a 9.9 per cent stake in Plexure. The minor stake in Plexure, which powers McDonald's mobile app in 48 countries outside of the U.S, aiding McDonald's strategy by restricting others in the fast-food industry from working with Plexure. Both deals are relatively small for the fast-food giant, which has a market value of US$143.73 billion (AU$202.59 billion). To complement the aforementioned investments in technology, McDonald's is also planning to spend nearly US$1 billion (AU$1.41 billion) to renovate 2,000 U.S. stores over the course of the year. McDonalds is closed the week Friday April 5 at US$190.71 (AU$268.81) up 1.22 per cent from the start of the week.

*Dynamic Pricing is the practice of varying the price for a product or service to reflect changing market conditions, in particular the charging of a higher price at a time of greater demand.

Weekly Global Breakdown

Australia

The Australian share market had a flat finish to the week, as a result of investors remaining vigilant over a trade war resolution between China and the US and US payroll figures.

Cyclone Veronica has hit the supply of both the mining giants, BHP Billiton and Rio Tinto, with both reportedly lowering their production guidance. Despite this, both BHP Billiton and Rio Tinto on Friday advanced 1.9 and 2 per cent respectively, on the back of surging iron ore prices.

The banks closed the week with mixed results, with NAB falling 1.8 per cent, while the other big 4 banks rose.

Australian shares are expected to kick start the week in positive territory after the release of strong US jobs report with SPI futures pointing to 32-point gain at open. Some sentiment has been restored in the market with the jobs report easing growth concerns.

US

Wall Street's major indexes finished higher, with the S&P 500 increasing to its highest level since October 2018. The S&P and Dow Jones ended the week 0.46 and 0.15 per cent higher respectively. Lifting US/China optimism and a dovish fed were the reasons for a strong finish to the week.

A stronger than expected US jobs report capped off a strong finish, as US added another 196,000 jobs, keeping unemployment rate to an extremely low level of 3.8 per cent.

Investors will be turning their attention to corporate earnings this week, as major US banks report their quarterly results.

Asía

Asian shares outside of Japan remain little changed on Friday, with Samsung Electronics reporting a decline in profit, which saw Samsung shares slump 2 per cent. As investors consider the latest earnings guidance from Samsung, this has been counteracted by hopes of a trade resolution between China and the US. Further, the stock markets in China and Hong Kong were closed on Friday, coupled with investors remaining cautious over the release of US monthly employment data, curbed the equity rally in Asia.

On Sunday, China's central bank announced that it would be cutting bank's required reserve ratios in order to encourage financing for small and medium sized businesses. Stimulus from China, coupled with strong US jobs data, is pointing towards a positive start for Asian markets on Monday.

Europe

European markets have edged higher on Friday, bolstered by stronger than expected US job data, with non-farm payrolls expanding by 196,000. The pan-European Stoxx 600 rose 0.24 per cent, while most of the other bourses also finished in positive territory. European markets were able to close the week higher on the back of growing US/China optimism, with a trade deal likely to be reached over the next four weeks.

However, in spite of the strong US job data and trade talk hopes, investors are becoming nervous over a possible economic downturn in the Eurozone.

New to markets? Got Questions?

As we mentioned in previous emails - we started UNIT Monash with the vision of educating the student community in investing and trading to one day strive for financial independence.

We want to create a new concept of peer-to-peer communications about investing and trading. There's a lot of value in sharing experiences, having opinions and shedding light on new ideas. Feel free to get in contact with us via Facebook if you have any enquiries about investment, trading or our upcoming events or if you would like to provide any feedback.

Regards,
UNIT Monash

SPONSORS AND PARTNERS

Disclaimer
The authors of this publication are not qualified to provide financial or investment advice and as such the content provided should not be construed in this manner. All information is intended purely for educational purposes and is provided for the personal interest of UNIT members. The opinions expressed within the weekly newsletter do not reflect those of UNIT as an organisation or its sponsors.

This email was sent to <<Email Address>>
why did I get this? unsubscribe from this list update subscription preferences
University Network of Investing and Trading · Monash University, Wellington Road · Clayton, Victoria 3800 · Australia

mailchimp