

Equity Strategy

Netherlands: A Global Reflationary Beneficiary (II)

Key Takeaway

While the men in orange won't be playing in this summer's World Cup for a second consecutive time, the Netherlands is illuminating the market with its much better macro data. Even though the PMI slipped to 60.7 in April after touching 63.4, the backlog of orders increased at a faster pace. In tandem, the equity market is responding well to the raised earnings forecasts.

Notwithstanding last year's elections (see [Netherlands: Split Opinions](#)) the Dutch equity indices have portrayed the recovery in global trade perfectly. The Netherlands is the 9th largest export economy in the world – almost 80% of the world's flower bulbs (mostly tulips) come from the country! The April PMI remained at an elevated level with tight pressure on capacity and ongoing price squeezes. Backlogs of work increased at a faster rate and for the ninth successive month – the longest sequence in 11 years. Admittedly, business confidence and manufacturing production have tapered but capacity utilization rates have edged up. It would be fair to say that the Netherlands has transitioned seamlessly from disinflation to inflation.

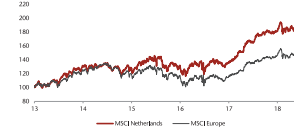
'God made the world, but the Dutch made Holland', Brilliant Orange: The Neurotic Genius of Dutch Football

'Catenaccio is like a Titian painting – soft, seductive and languid. The Italians welcome and lull you and seduce you into their soft embrace, and score a goal like the thrust of a dagger', Brilliant Orange: The Neurotic Genius of Dutch Football

Although the headline CPI is 0.9% y-y, house prices and equity share prices have responded well to the negative real interest regime and the abundant current account surplus. The exchange rate is 'modestly cheap' based on its REER allowing the Netherlands to enjoy a competitiveness boost. The equity market is one of the few in the world which is experiencing broad earnings revisions and the Du Pont ratios demonstrate a clean bill of health – rising asset turnover, widening net margins and climbing ROE (see exhibit 7 to 10). True the market is not cheap (35% of the stocks trade above three times book) but companies are generally geared lowly while around 45% of the market has a FCF yield above 3%.

The market trades on a forward P/E of 15.1x, forward P/B of 1.8x, forward dividend yield of 3.4% and forward ROE of 12.2%. We remain Bullish within our Global Asset Allocation. There is a large group of quality companies within the Dutch equity market.

MSCI Netherlands Index vs MSCI Europe since 2013 (US\$, 2013=100)



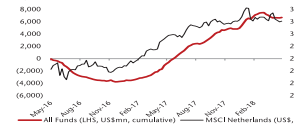
Source: FactSet, Jefferies

Netherlands Real 10-Year Bond Yield %



Source: Bloomberg, Jefferies

Equity Market Flows into Netherlands



Source: Bloomberg, EPR, Jefferies

FY1 Earnings Revision



Source: FactSet, Jefferies

Net Profit Margin (% ex Fin)



Source: FactSet, Jefferies

Return On Equity (% ex Fin)



Source: FactSet, Jefferies

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^Prior trading day's closing price unless otherwise noted.

Company with High FCF Yield, Inexpensive & Positive Earnings Revisions

Ticker	Company Name	PE (x, 12M)	PB (x, 12M)	DY (%), 12M)	FCFY (%), 12M)	ROE (%), FY1)	FY1 EPS Growth (%)	FY1 EPS Revision (%), 3M)	FY2 EPS Revision (%), 3M)	Net Debt/Equity (%), FY0)	Jef Research Rating
MT NA	ARCELORMITTAL	7.6	0.75	1.05	11.8	11.3	4.6	21.8	17.2	25.3	BUY

Companies with Good Quality Metrics

Ticker	Company Name	PE (x, 12M)	PB (x, 12M)	DY (%), 12M)	FCFY (%), 12M)	ROE (%), FY1)	FY1 EPS Growth (%)	FY1 EPS Revision (%), 3M)	FY2 EPS Revision (%), 3M)	Net Debt/Equity (%), FY0)	Jef Research Rating
APAM NA	APERAM	11.6	1.28	4.12	8.3	11.2	(9.6)	(2.3)	(3.3)	(2.5)	BUY
PNL NA	POSTNL NV	7.8	12.27	8.22	6.8	276.3	21.2	(14.8)	(12.8)	(124.3)	BUY
DSM NA	DSM (KONIN)	16.7	1.97	2.30	4.8	14.0	(44.9)	14.1	0.1	11.0	BUY

A Financial on Attractive Valuation

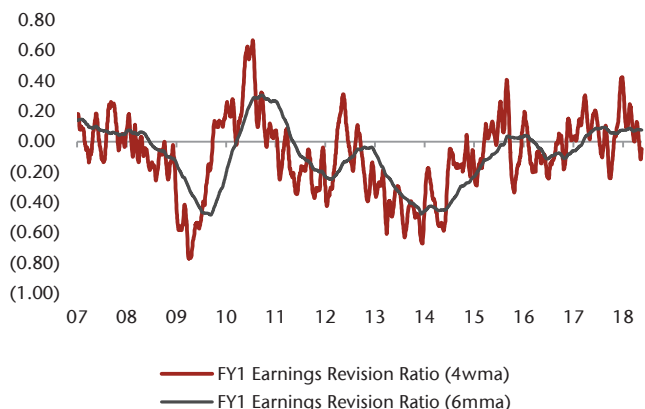
Ticker	Company Name	PE (x, 12M)	PB (x, 12M)	DY (%), 12M)	FCFY (%), 12M)	ROE (%), FY1)	FY1 EPS Growth (%)	FY1 EPS Revision (%), 3M)	FY2 EPS Revision (%), 3M)	Net Debt/Equity (%), FY0)	Jef Research Rating
INGA NA	ING GROEP NV	9.8	0.97	5.35	NA	10.3	4.1	(1.0)	(1.3)	NA	BUY

Source: Bloomberg, Jefferies

(cont. overleaf)

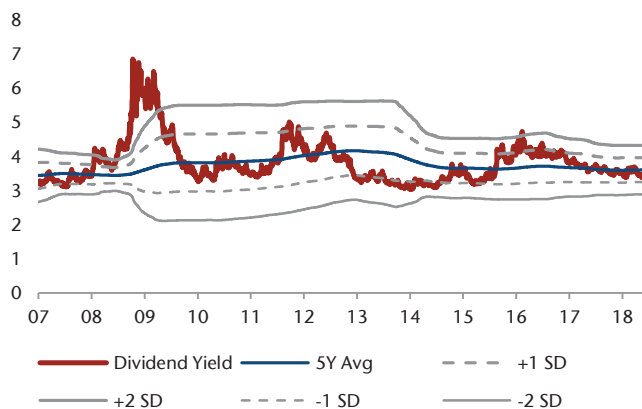
Netherlands Valuations & Fund Flows

Exhibit 1: FY1 Earnings Revision



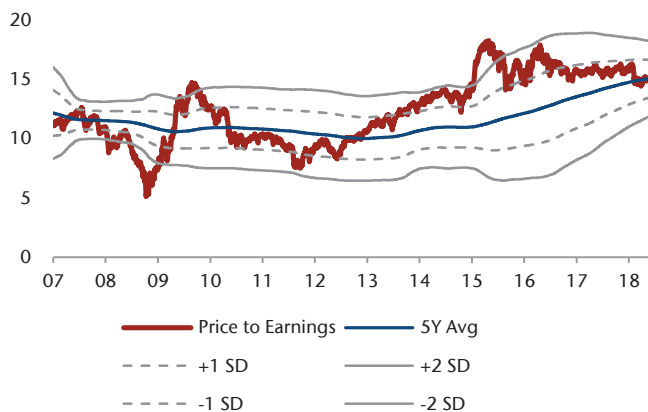
Source: FactSet, Jefferies

Exhibit 2: Dividend Yield (12-month forward)



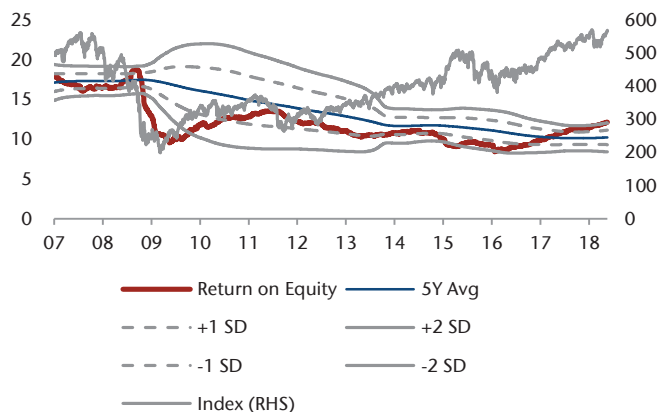
Source: FactSet, Jefferies

Exhibit 3: Price to Earnings (12-month forward)



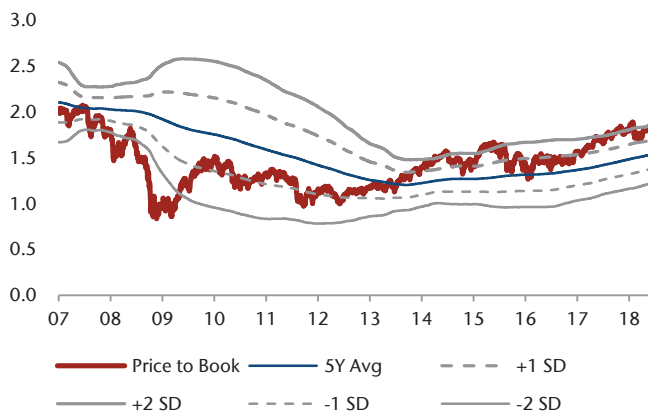
Source: FactSet, Jefferies

Exhibit 4: Return on Equity (12-month forward)



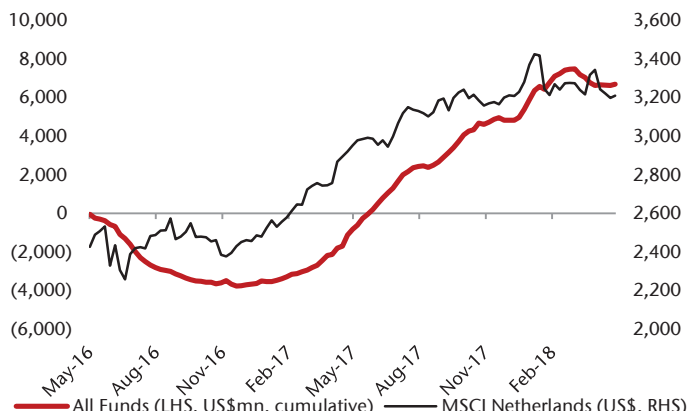
Source: FactSet, Jefferies

Exhibit 5: Price to Book (12-month forward)



Source: FactSet, Jefferies

Exhibit 6: Equity Market Flows into Netherlands



Source: Bloomberg, EPFR, Jefferies

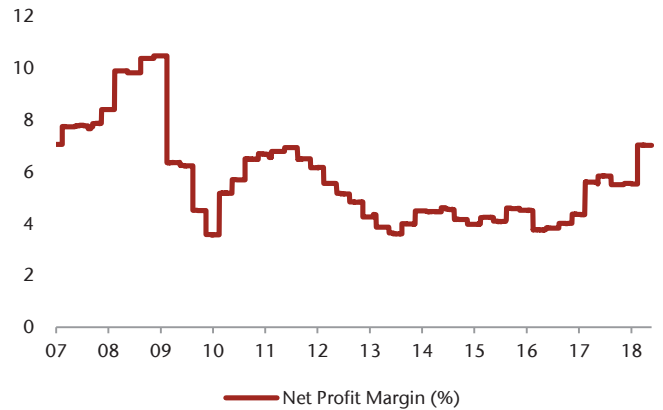
Netherlands DuPont Analysis

Exhibit 7: Asset Turnover (x, ex Fin)



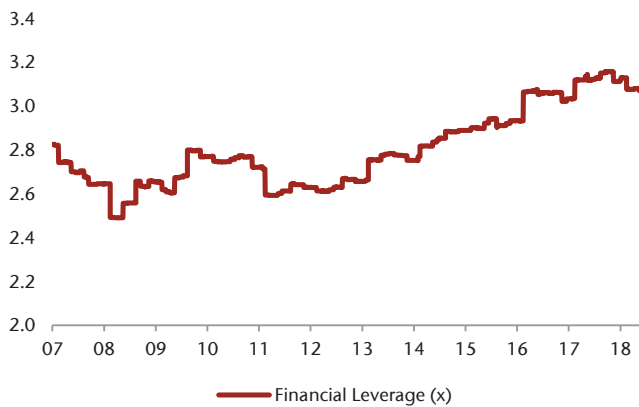
Source: FactSet, Jefferies

Exhibit 8: Net Profit Margin (% ex Fin)



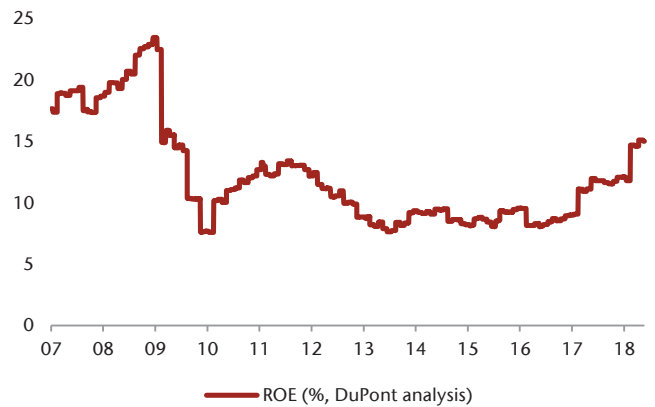
Source: FactSet, Jefferies

Exhibit 9: Financial Leverage (x, ex Fin)



Source: FactSet, Jefferies

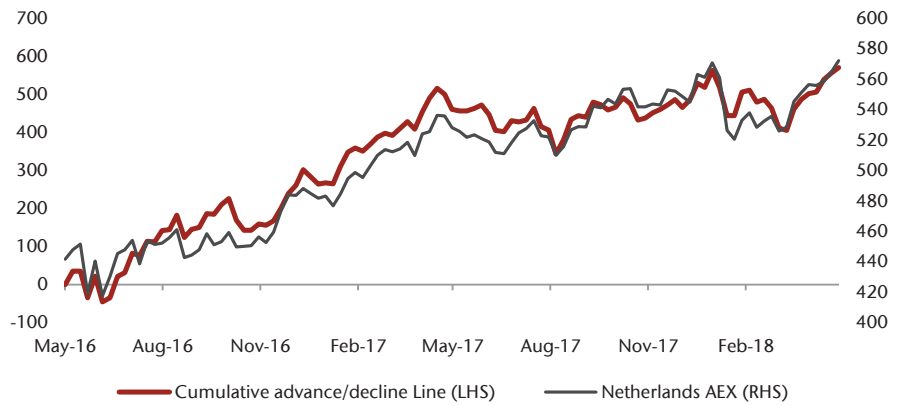
Exhibit 10: Return On Equity (% ex Fin)



Source: FactSet, Jefferies

Market breadth is excellent

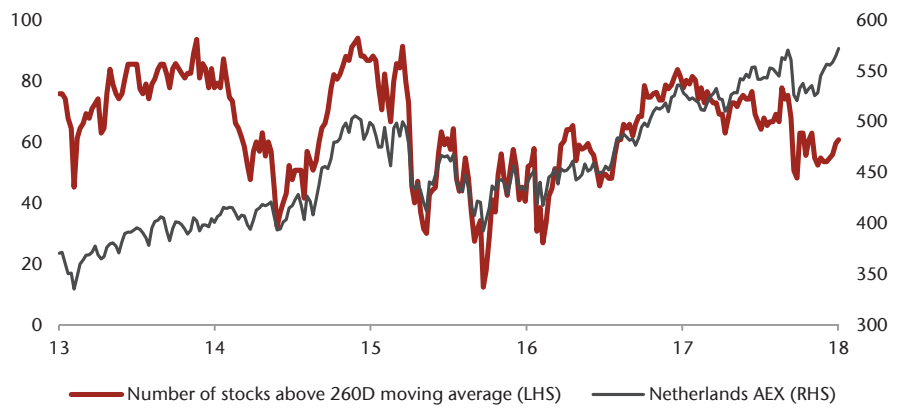
Exhibit 11: Cumulative Advance Decline Line



Source: FactSet, Jefferies

On this measure the equity market is pausing for breath

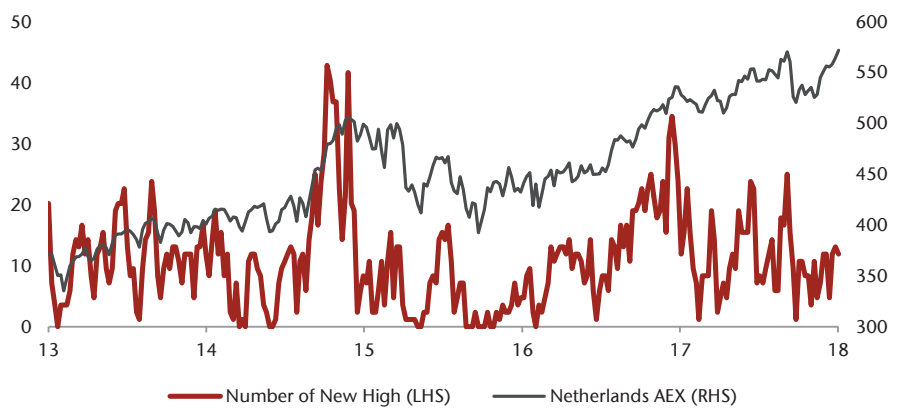
Exhibit 12: Number of Stocks Above 260D Moving Average



Source: FactSet, Jefferies

Slightly more stocks are making new highs...

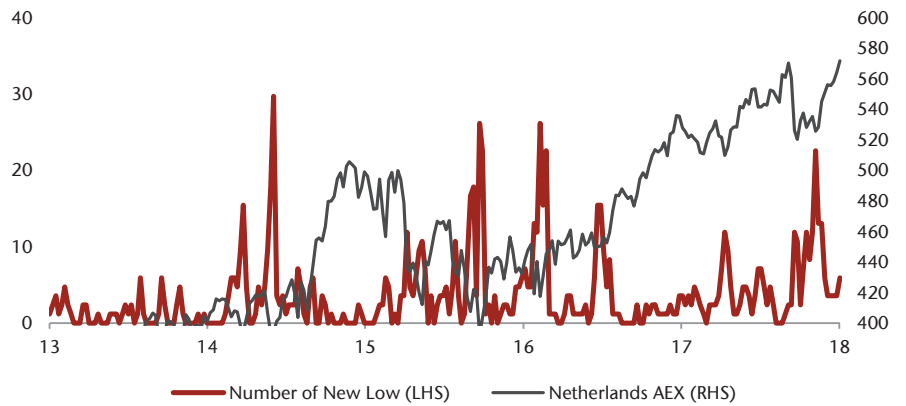
Exhibit 13: Number of New Highs (52-week)



Source: FactSet, Jefferies

..than new lows

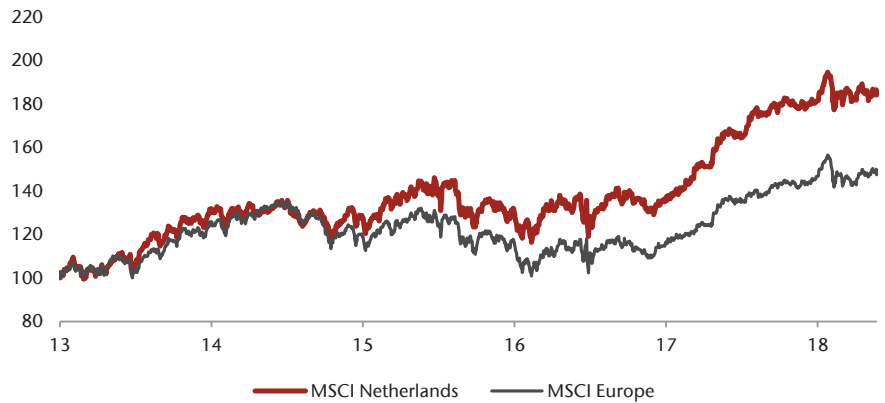
Exhibit 14: Number of New Lows (52-week)



Source: FactSet, Jefferies

The Netherlands has outperformed sharply but has gone sideways recently

Exhibit 15: MSCI Netherlands Index vs MSCI Europe since 2013 (US\$, 2013=100)



Source: FactSet, Jefferies

House prices are reflating

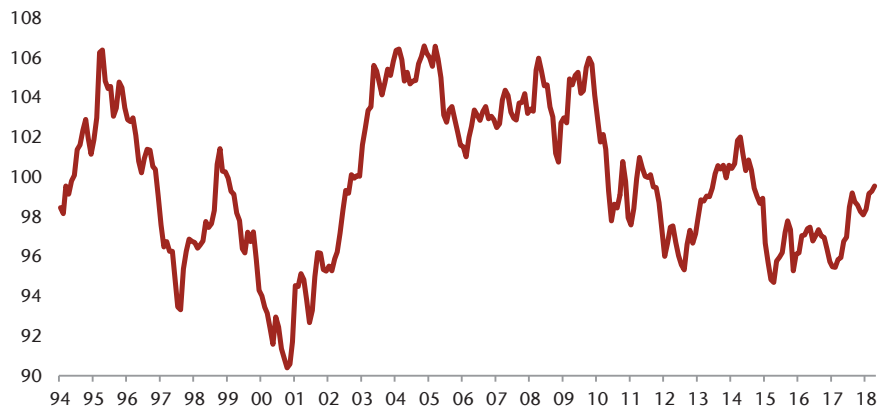
Exhibit 16: Netherlands House Price Index YoY %



Source: Bloomberg, Jefferies

The exchange rate was cheap through 2017

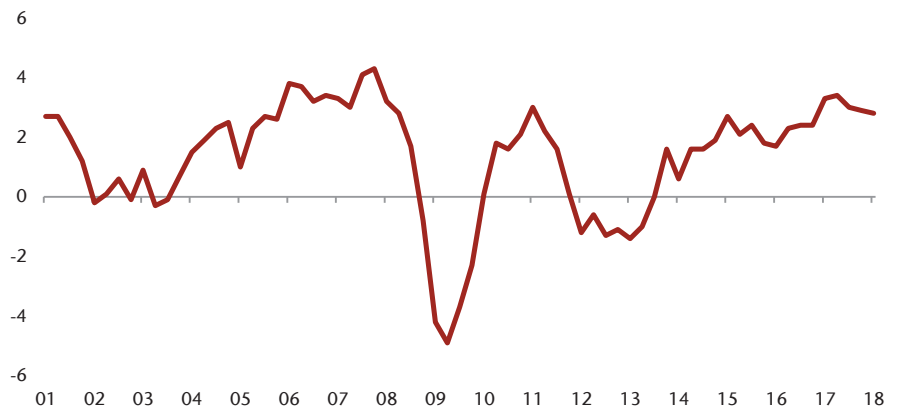
Exhibit 17: Netherlands Real Effective Exchange Rate Broad



Source: Bloomberg, Jefferies

GDP growth is back to trend

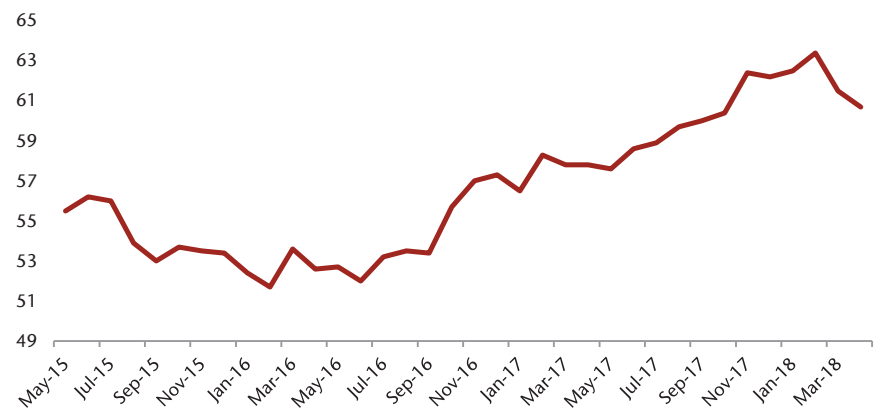
Exhibit 18: Netherlands GDP at Real 2010 Prices in Euros YoY %



Source: Bloomberg, Jefferies

The PMI is still strong at 60

Exhibit 19: NEVI Netherlands Manufacturing PMI SA



Source: Bloomberg, Jefferies

Real interest rates are slightly negative

Exhibit 20: Netherlands Real 10-Year Bond Yield %

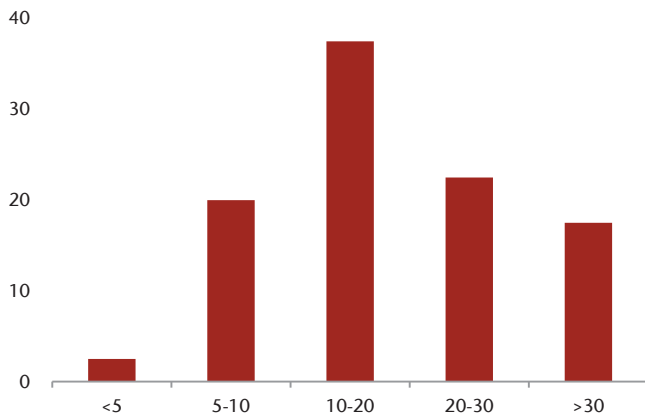


Source: Bloomberg, Jefferies

Note: real bond yield = 10y generic yield minus CPI y-y %

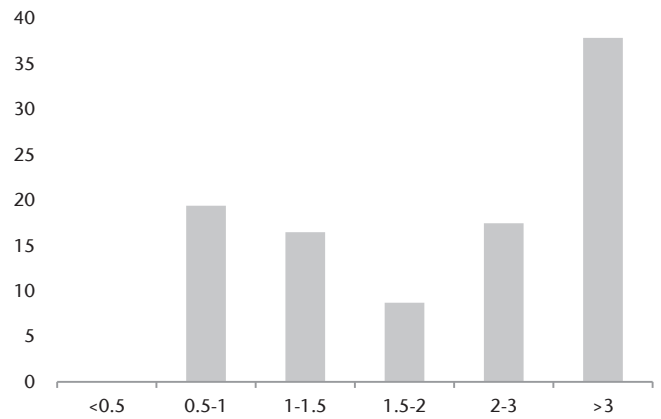
Netherlands: Valuation Dispersion

Exhibit 21: P/E Distribution



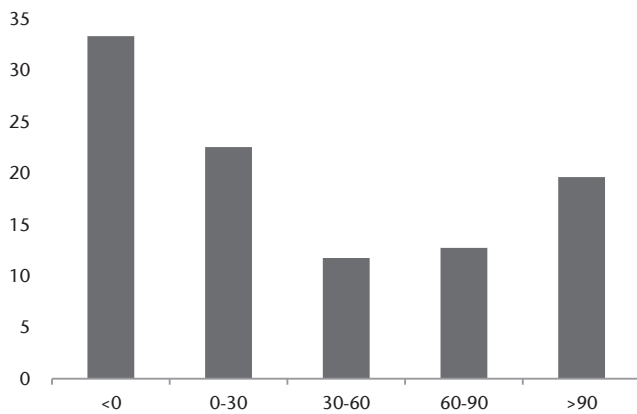
Source: Bloomberg, Jefferies

Exhibit 22: P/B Distribution



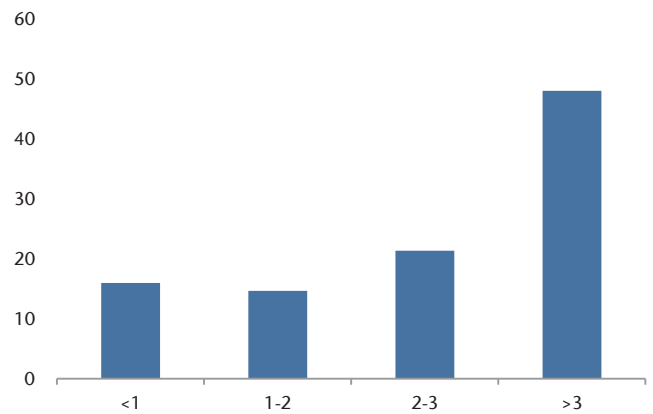
Source: Bloomberg, Jefferies

Exhibit 23: Net Debt to Equity Distribution



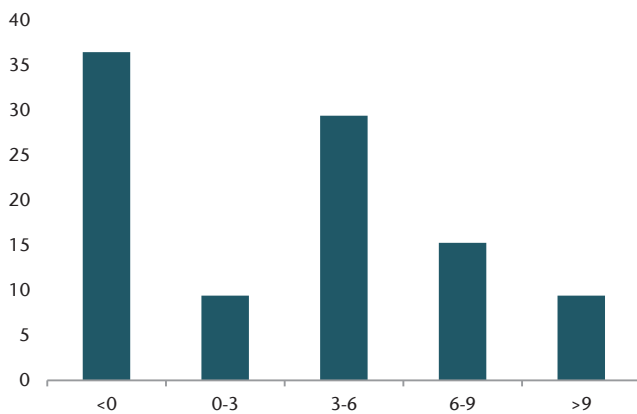
Source: Bloomberg, Jefferies

Exhibit 24: Altman's Z-Score Distribution



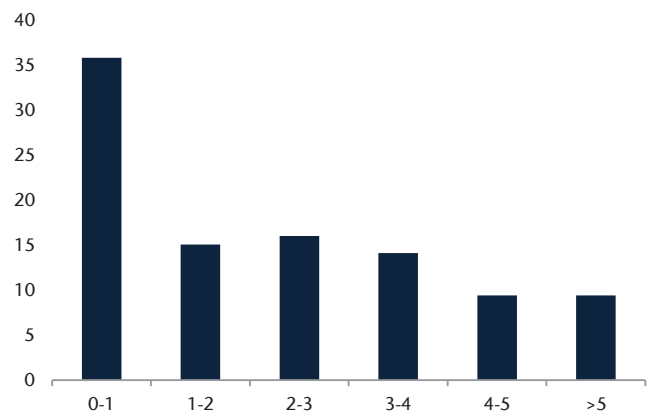
Source: Bloomberg, Jefferies

Exhibit 25: Free Cash Flow Yield Distribution



Source: Bloomberg, Jefferies

Exhibit 26: Dividend Yield Distribution



Source: Bloomberg, Jefferies

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(Article 3(1)e and Article 7 of MAR)

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25 May 2018

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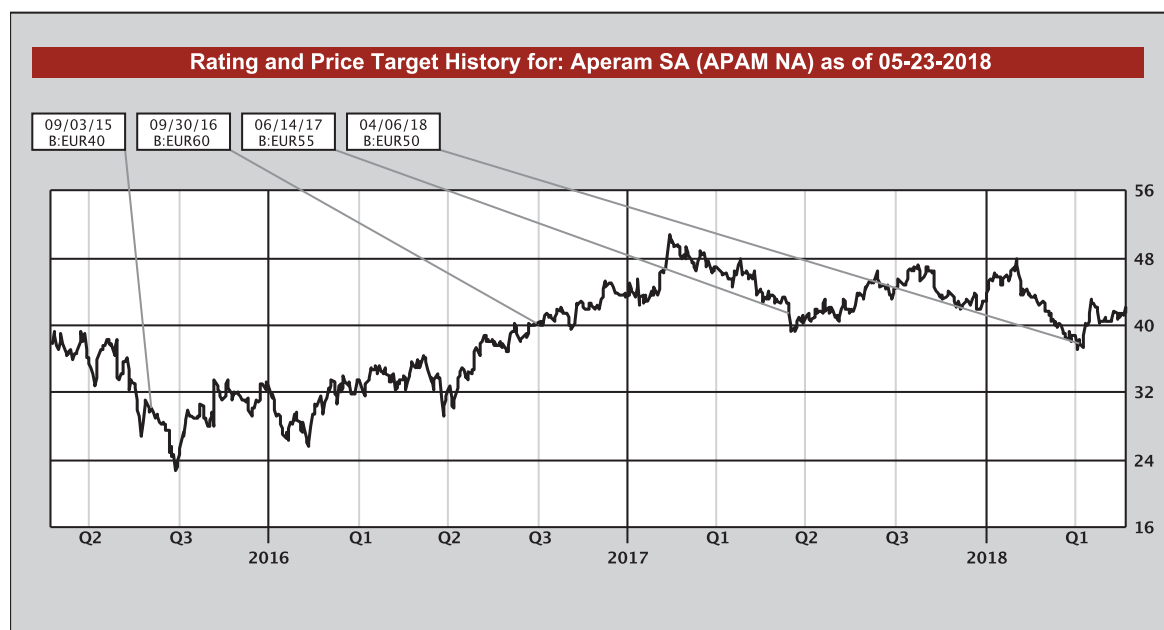
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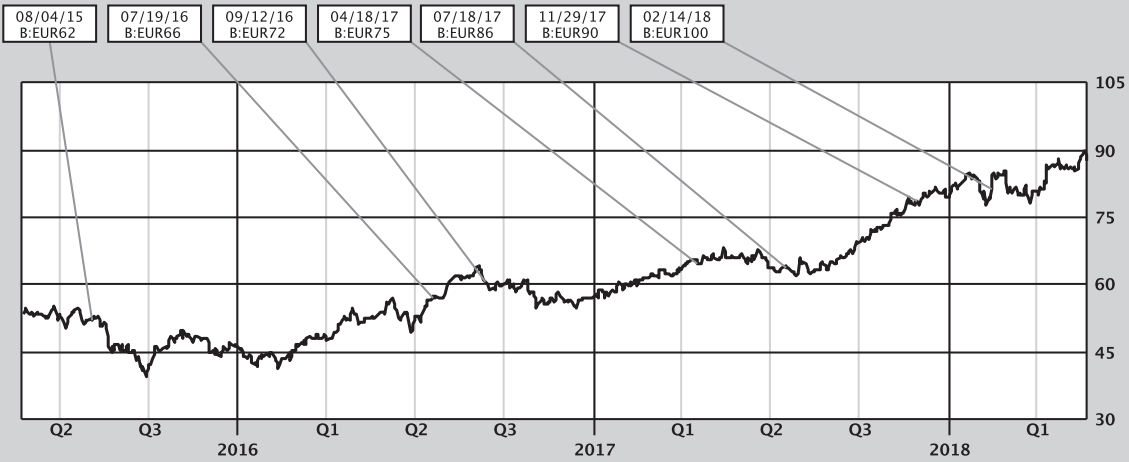
Other Companies Mentioned in This Report

- Aperam SA (APAM NA: €41.40, BUY)
- ArcelorMittal (MT NA: €28.70, BUY)
- ING Groep N.V. (INGA NA: €13.34, BUY)
- PostNL NV (PNL NA: €3.09, BUY)
- Royal DSM N.V. (DSM NA: €87.38, BUY)



25 May 2018

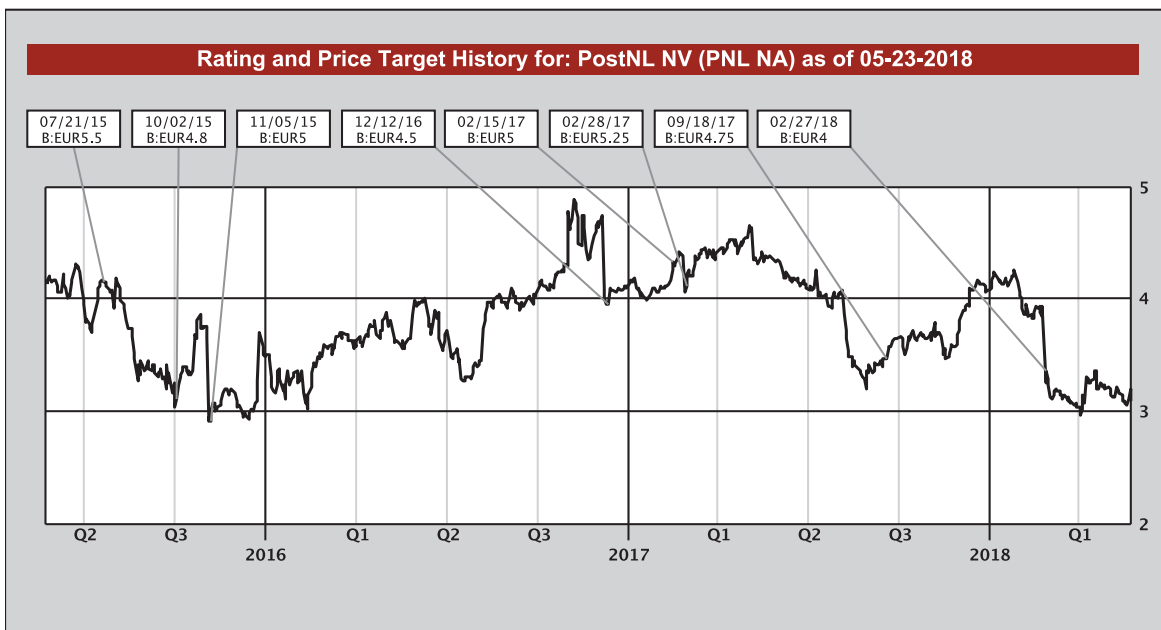
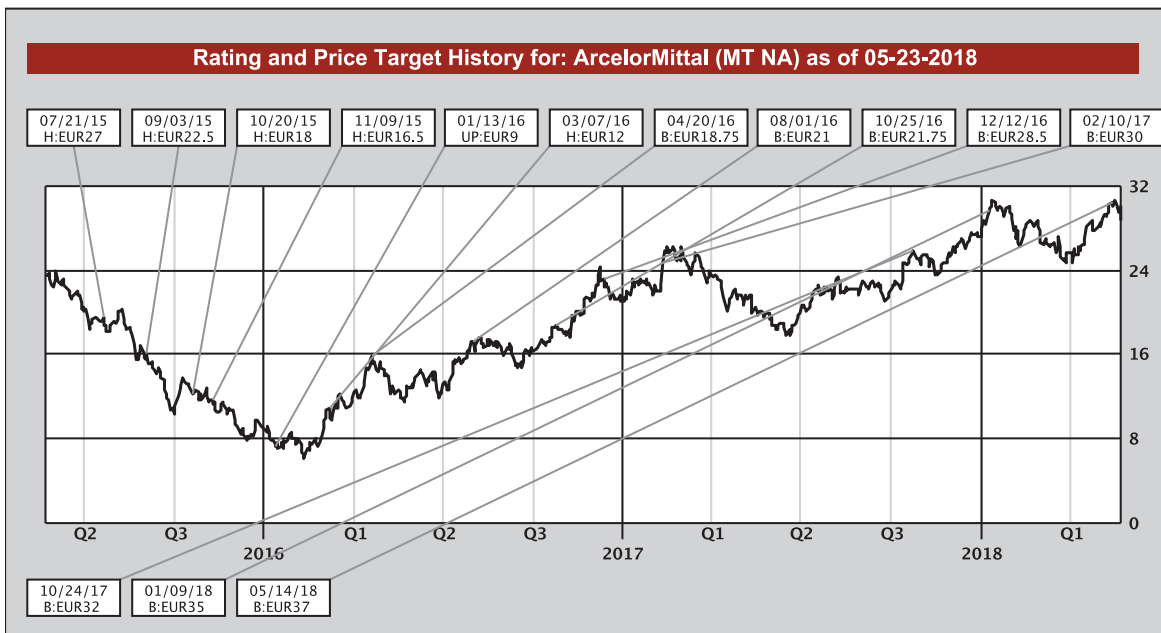
Rating and Price Target History for: Royal DSM N.V. (DSM NA) as of 05-23-2018



Rating and Price Target History for: ING Groep N.V. (INGA NA) as of 05-23-2018



25 May 2018



Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

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D: Dropped Coverage

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H: Hold

UP: Underperform

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			Count	Percent	Count	Percent
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