

MORNING NEWS CALL

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U.S. Edition

Thursday, July 18, 2019

- **Honeywell beats quarterly profit estimates, raises 2019 forecast**

Honeywell International reported a better-than-expected quarterly earnings and raised its full-year sales and profit forecasts, riding on higher demand for aircraft parts and spares, sending its shares up.

- **G7 urges strict Libra regime, eyes minimum tax**

Digital currencies like Facebook's Libra must be held "to the highest regulatory standards" to ensure they are not used to launder money and that users are protected, a Group of Seven taskforce urged.

- **SAP says big margin gains to wait until 2020**

SAP told investors not to expect a major improvement in margins before next year as the German business software group reported a 21% decline in second-quarter operating profit.

- **TSMC expects 5G to drive earnings, flags S.Korea-Japan spat as risk**

Taiwan's TSMC forecast that robust demand for 5G chips will drive a stronger second-half even as it anticipates a dispute between Japan and South Korea involving chip-making materials to be a big source of uncertainty.

- **FOCUS- Verizon resurrects media business as safe haven on the internet**

Banning pornography from Tumblr was not necessarily meant to define Verizon Media's strategy to turn around a collection of Internet has-beens. But that is how it has played out. After Verizon Communications, which owns media brands like Yahoo, AOL and social media site Tumblr, declared its media properties nearly worthless last year with a \$4.6 billion write-down, the division of the U.S. telecoms giant is resurrecting the businesses as an antidote to the cesspool of the internet.

BEFORE THE BELL

U.S. stock index futures were down, in line with **Asian markets** on signs that the U.S.-China trade war was hurting corporate earnings. Most **European shares** were slightly higher as investors parsed through corporate results. The **dollar** was nearly flat. **Gold** prices eased from two-week high earlier in the session on profit-booking. **Oil** prices gained after Iran seized a foreign tanker smuggling fuel in the Gulf. Microsoft, Morgan Stanley and Union Pacific are scheduled to report results later in the day.

STOCKS TO WATCH

Results

- **EBay Inc (EBAY)**. The company beat Wall Street estimates for quarterly revenue and profit, as efforts to make its platforms easier to navigate attracted more customers, coupled with growth in its advertising and payments businesses. EBay forecast third-quarter adjusted profit from continuing operations in the range of 62 cents to 65 cents per share and revenue of \$2.61 billion to \$2.66 billion. Analysts had expected a profit of 63 cents on revenue of \$2.68 billion, according to IBES data from Refinitiv. EBay said active buyers grew 4% to 182 million globally in the reported quarter. However, the company's gross merchandise volume, which is the value of goods sold on its websites within a certain time frame, fell about 4% to \$22.60 billion. The company's net income from continuing operations fell to \$403 million, or 46 cents per share, in the second quarter ended June 30, from \$638 million, or 64 cents per share, a year earlier. On an adjusted basis, the company earned 68 cents per share, beating analyst expectations of 62 cents. Revenue rose nearly 2% to \$2.69 billion, above estimates of \$2.68 billion.

- **Honeywell International Inc (HON)**. The company reported a better-than-expected quarterly earnings and raised its full-year sales and profit forecasts, riding on higher demand for aircraft parts and spares. In the second quarter, sales in its aerospace unit, the company's biggest business, rose 11%, excluding the impact of foreign exchange and other items. Honeywell raised the low end of its full-year earnings per share forecast range by 5 cents to \$7.95, while keeping the top end unchanged at \$8.15. The company also raised the bottom end of its 2019 sales outlook by \$200 million to \$36.7 billion, while reaffirming the higher end at \$37.2 billion. Net income attributable to Honeywell rose 21.6% to \$1.54 billion, or \$2.10 per share, in the quarter ended June 30, beating analysts' average estimate of \$2.08 per share, according to IBES data from Refinitiv. Revenue fell about 15% to \$9.24 billion due to certain divestitures, and was below analysts' expectation of \$9.35 billion.

- **International Business Machines Corp (IBM)**. The company beat analysts' estimates for second-quarter profit, propped up by recurring growth in its high-margin cloud business. Revenue from cloud business, the faster-growing service and a key metric for the company, grew 5% to \$4.8 billion during the quarter. However, a stronger dollar dragged down its revenue by about \$500 million. IBM makes over 60% of its revenue from outside the United States. Total revenue slipped 4.2% to \$19.16 billion, in line with analysts' estimates of \$19.16 billion. The decline in revenue could be attributed to weakness in the company's legacy business of selling hardware, Chief Financial Officer James Kavanaugh told Reuters. IBM said it remained on track to achieve adjusted earnings of at least \$13.90 for 2019, excluding the impact of Red Hat, in-line with analysts' expectations. The company added that it would provide an update on 2019 adjusted earnings, including impact from Red Hat on Aug. 2. The company's net income rose to \$2.50 billion, or \$2.81 per share, in the second quarter ended June 30 from \$2.40 billion, or \$2.61 per share, a year earlier. On an adjusted basis, the company earned \$3.17 per share, beating estimates of \$3.07.

- **Kinder Morgan Inc (KMI)**. The company swung to a profit in the second quarter because of greater earnings from natural gas pipelines and fewer impairment charges, but missed Wall Street estimates, the company reported. The pipeline operator posted earnings of 23 cents a share, a penny below Refinitiv estimates.
- **Netflix Inc (NFLX)**. The company said it lost U.S. streaming customers for the first time in eight years and missed targets for new subscribers overseas, an announcement that jarred investors ahead of looming competition. The company posted quarterly results that showed it shed 130,000 U.S. customers from April to June. Netflix reported that it added 2.83 million paid streaming subscribers outside the United States, below analyst expectations of 4.8 million, according to IBES data from Refinitiv. Analysts had forecast a U.S. gain of 352,000. Looking ahead, Netflix projected it would add 7 million paid streaming customers in the third quarter with help from a new season of "Stranger Things". Net income fell to \$270.7 million, or 60 cents per share, in the second quarter ended June 30 from 85 cents a year earlier. Total revenue rose to \$4.92 billion from \$3.91 billion. Analysts on average had expected revenue of \$4.93 billion. That is more bullish than the 6.6 million forecast from analysts polled by Refinitiv. Separately, the company said it would roll out a lower-priced mobile-only plan in India within the next three months to tap into a price-sensitive market at a time the streaming company is losing customers in its home turf.
- **Novartis AG (NVS)**. The company's boss Vas Narasimhan raised full-year targets and announced that \$700 million has been set aside in the hope of settling a decade-old lawsuit alleging that the Swiss drugmaker bribed U.S. doctors. The lawsuit, since joined by the U.S. government, contends that Novartis paid millions of dollars in kickbacks to doctors so they would prescribe its products, including hypertension treatment Lotrel and diabetes drug Starlix. Novartis reported a 20% jump in second-quarter core operating income to \$3.6 billion with sales up 8% at \$11.8 billion, beating an \$11.5 billion forecast in a Refinitiv poll. The company now expects 2019 core operating income to grow at low double-digit to mid-teen percentages, Narasimhan said, up from a previous target in the high single digits. Sales growth is expected in the mid-to-high single digits, against previous guidance for a mid-single-digit percentage. Its Entresto heart failure medicine registered an 81% leap in second-quarter sales to \$421 million. Inflammation drug Cosentyx, the company's top seller, reached \$858 million, up 25%. The company's Innovative Medicines business achieved a core operating margin of 35.4%, hitting Narasimhan's mid-term target ahead of schedule. He also highlighted the second-quarter launch of gene therapy Zolgensma, the world's most expensive drug at \$2.1 million per patient, for deadly spinal muscular atrophy (SMA), saying he was pleased with its progress.
- **SAP SE (SAP)**. The company told investors not to expect a major improvement in margins before next year as the German business software group reported a 21% decline in second-quarter operating profit. The tech firm reiterated its forward guidance and CEO Bill McDermott expressed his "absolute commitment" to meeting a strategic goal of expanding margins by 5 percentage points through 2023. It targets a 71% share next year and 75% in 2023, part of a drive to make the business, based in the Rhineland town of Walldorf, a safer long-term bet for investors. After adjusting for one-offs, SAP's operating profit at constant currencies rose 8% in the second quarter - in line with revenue growth but below Eikon Refinitiv estimates. Adjusted operating margins were flat at 27.3 percent. SAP reiterated its guidance for adjusted operating profit to grow by between 9.5% and 12.5% this year.
- **Taiwan Semiconductor Manufacturing Co Ltd (TSM)**. The company forecast that robust demand for 5G chips will drive a stronger second-half even as it anticipates a dispute between Japan and South Korea involving chip-making materials to be a big source of uncertainty. It reported a decline in second-quarter profit. But it said demand is likely to recover during the rest of 2019, particularly from smartphone makers, hampered at present by the impact of a Sino-U.S. trade war. The company forecast third-quarter revenue to rise as much as 8.4% from a year earlier in U.S. dollar terms. "Although our business continues to be impacted by a global slowing economy ... we have also passed the bottom of the cycle of our business and again began to see demand increasing," Chief Executive Officer and Vice Chairman C.C. Wei told analysts during an earnings briefing. Earlier, TSMC reported a 7.6% decline in April-June net profit at T\$66.77 billion, just ahead of analyst estimates. Revenue rose 3.3% to T\$241 billion, but fell 1.4% to \$7.75 billion in U.S. dollar terms - still topping the average of 23 analyst estimates compiled by Refinitiv. Prior to TSMC's announcement, its shares closed up 0.8% versus a 0.25% fall in the wider market.
- **UnitedHealth Group Inc (UNH)**. The company beat estimates for quarterly profit and raised its 2019 earnings forecast, buoyed by strength in the largest U.S. health insurer's pharmacy benefits management business and its insurance plans. Sales in UnitedHealth's main business of selling health insurance plans rose nearly 6% to \$48.59 billion in the second quarter. The company raised its full-year adjusted earnings forecast to between \$14.70 and \$14.90 per share, from an earlier forecast of between \$14.50 and \$14.75 per share. Net earnings attributable to shareholders rose to \$3.29 billion, or \$3.42 per share, in the three months ended June 30, from \$2.92 billion, or \$2.98 per share, a year earlier. Excluding items, UnitedHealth earned \$3.60 per share, beating the average analyst estimate of \$3.45, according to IBES data from Refinitiv. Total revenue rose 8% to \$60.60 billion, topping estimates of \$60.55 billion.

In Other News

- **Alphabet Inc (GOOGL)**. Australia's LendLease Group said it secured a contract with Google to develop \$15 billion worth of residential and retail space in Silicon Valley, sending the builder's stock to a more than eight-month high. LendLease said it will partner Google for the next 10 to 15 years to redevelop the U.S. firm's landholdings in Sunnyvale, San Jose and Mountain View, with work starting as early as 2021. It quoted Google Vice President of Real Estate and Workplace Services David Radcliffe as saying the deal would boost the tech firm's plans to "accelerate the production of residential units in the Bay Area" and "build mixed-use developments".
- **BNY Mellon Corp (BK)**. The investment company's push to reinvigorate its money management business has yet to stem a continuous outflow of client cash from its \$322 billion complex of index-based investment products. The company's executives delivered more bad news on Wednesday when they detailed \$22 billion in net withdrawals from index portfolios during the second quarter. Most of that outflow came from a single, unnamed client that took assets in-house, BNY Mellon Chief Financial Officer Michael Santomassimo said on a conference call. BNY Mellon has taken a number of steps to reduce the complexity of its asset management business. For example, it has reduced the number of open-ended long-term mutual funds to 92 from 106. And fees have been lowered on municipal bond funds, a BNY Mellon spokesman said.
- **Facebook Inc (FB)**. Stablecoins like the company's Libra can foster financial inclusion but they must be held "to the highest regulatory standards" to ensure that they aren't used to launder money and that users are protected, a Group of Seven taskforce on the issue concluded. The taskforce presented its first report to G7 finance minister and central bankers meeting in Chantilly, France. The taskforce, chaired by European Central Bank board member Benoit Coeure, found stablecoins can bring down the cost of

remittances and forms of payment, helping poorer people who can ill afford financial services. But they need to be strictly regulated to ensure they are stable, safe and free of criminal activity.

- **Goldman Sachs Group Inc (GS)**. Booming stock markets around the globe helped offset declines in other businesses last quarter, but those gains may not be sustainable, analysts said. The biggest contributor to the bank's profits was the \$1.5 billion it notched from its own equity investments – including \$375 million from electronic trading company Tradeweb – some of which it sold during the second quarter. "We consider these to be solid results given the operating environment ... but they underscore the importance of the firm's strategic initiatives," wrote David Fanger, senior vice president at Moody's. Excluding the gains from Tradeweb, Fanger said the bank is facing "muted client activity levels...investor concerns over trade and tariffs, uncertainty over shifts in central bank policy, and tighter credit markets compared with a year ago."

- **Kinder Morgan Inc (KMI)**. The energy company will go ahead with a South Texas pipeline connection that would transport crude from Phillips 66's 900,000 bpd Gray Oak pipeline in the Permian Basin to delivery points at the Houston Ship Channel, the company said on Wednesday. The company plans to spend \$10 million on the project this year and has contracts to start transporting 75,000 bpd for up to three years, Chief Executive Officer Steven Kean told investors.

INSIGHT

Trump's tariffs trip up the all-American RV industry

About 85% of the recreational vehicles sold in the United States are built in and around Elkhart County, making it a popular stop for politicians to tout their visions for U.S. manufacturing – including President Donald Trump, who staged a rally here last May. And yet this uniquely American manufacturing sector has been caught in the crossfire of Trump's trade war, according to interviews with industry insiders and economists, along with data showing a steep sales decline amid rising costs and consumer prices.

ANALYSTS' RECOMMENDATION

- **American International Group Inc (AIG)**. Compass Point raises target price to \$69 from \$66, as they are optimistic about the company's second quarter 2019 results.
- **Apple Inc (AAPL)**. Raymond James raises rating to outperform from marketperform, with the analyst citing greater confidence in the 5G iPhone cycle next year.
- **Ebay Inc (EBAY)**. Mizuho raises target price to \$36 from \$34, as they expect the company's 2020 EPS will be supported by cost reductions and savings from a new payment system.

ECONOMIC EVENTS (All timings in U.S. Eastern Time)

0830 **Initial jobless claims** : Expected 216,000; Prior 209,000
 0830 **Jobless claims 4-week average** : Prior 219,250
 0830 **Continued jobless claims** : Expected 1.700 mln; Prior 1.723 mln
 0830 **Philly Fed Business Index** for Jul: Expected 5.0; Prior 0.3
 0830 **Philly Fed 6M Index** for Jul: Prior 21.40
 0830 **Philly Fed Capex Index** for Jul: Prior 28.00
 0830 **Philly Fed Employment** for Jul: Prior 15.40
 0830 **Philly Fed Prices Paid** for Jul: Prior 12.90
 0830 **Philly Fed New Orders** for Jul: Prior 8.30
 1000 **Leading index change mm** for Jun: Expected 0.1%; Prior 0.0%

COMPANIES REPORTING RESULTS

Alliance Data Systems Corp (ADS). Expected Q2 earnings of \$4.02 per share
Capital One Financial Corp (COF). Expected Q2 earnings of \$2.87 per share
E*TRADE Financial Corp (ETFC). Expected Q2 earnings of \$1.09 per share
Intuitive Surgical Inc (ISRG). Expected Q2 earnings of \$2.87 per share
Microsoft Corp (MSFT). Expected Q4 earnings of \$1.21 per share
Morgan Stanley (MS). Expected Q2 earnings of \$1.14 per share
Nucor Corp (NUE). Expected Q2 earnings of \$1.29 per share
People's United Financial Inc (PBCT). Expected Q2 earnings of 33 cents per share
Union Pacific Corp (UNP). Expected Q2 earnings of \$2.14 per share

CORPORATE EVENTS (All timings in U.S. Eastern Time)

0800 **BB&T Corp (BBT)**. Q2 earnings conference call
 0800 **Danaher Corp (DHR)**. Q2 earnings conference call
 0830 **Morgan Stanley (MS)**. Q2 earnings conference call
 0830 **Honeywell International Inc (HON)**. Q2 earnings conference call
 0830 **Alliance Data Systems Corp (ADS)**. Q2 earnings conference call
 0845 **Union Pacific Corp (UNP)**. Q2 earnings conference call
 0845 **UnitedHealth Group Inc (UNH)**. Q2 earnings conference call
 0900 **Crown Holdings Inc (CCK)**. Q2 earnings conference call

0900 **Ally Financial Inc** (ALLY). Q2 earnings conference call
0900 **Philip Morris International Inc** (PM). Q2 earnings conference call
0900 **Blackstone Group Inc** (BX). Q2 earnings conference call
1000 **M&T Bank Corp** (MTB). Q2 earnings conference call
1000 **Dover Corp** (DOV). Q2 earnings conference call
1000 **Snap-On Inc** (SNA). Q2 earnings conference call
1000 **Watsco Inc** (WSO). Q2 earnings conference call
1000 **Signature Bank** (SBNY). Q2 earnings conference call
1030 **Crown Castle International Corp** (CCI). Q2 earnings conference call
1100 **Sonoco Products Co** (SON). Q2 earnings conference call
1100 **SunTrust Banks Inc** (STI). Q2 earnings conference call
1100 **Genuine Parts Co** (GPC). Q2 earnings conference call
1100 **United Rentals Inc** (URI). Q2 earnings conference call
1100 **Pool Corp** (POOL). Q2 earnings conference call
1130 **East West Bancorp Inc** (EWBC). Q2 earnings conference call
1400 **SL Green Realty Corp** (SLG). Q2 earnings conference call
1400 **Nucor Corp** (NUE). Q2 earnings conference call
1400 **PPG Industries Inc** (PPG). Q2 earnings conference call
1600 **Snap Inc** (SNAP). Annual Shareholders Meeting
1630 **Skechers USA Inc** (SKX). Q2 earnings conference call
1630 **Intuitive Surgical Inc** (ISRG). Q2 earnings conference call
1700 **E*TRADE Financial Corp** (ETFC). Q2 earnings conference call
1700 **Capital One Financial Corp** (COF). Q2 earnings conference call
1700 **People's United Financial Inc** (PBCT). Q2 earnings conference call
1700 **CrowdStrike Holdings Inc** (CRWD). Q1 earnings conference call
1700 **Chewy Inc** (CHWY). Q1 earnings conference call
1730 **Microsoft Corp** (MSFT). Q4 earnings conference call

EXDIVIDENDS

EMCOR Group Inc (EME). Amount \$0.08
Foot Locker Inc (FL). Amount \$0.38
PerkinElmer Inc (PKI). Amount \$0.07
PNC Financial Services Group Inc (PNC). Amount \$1.15
Procter & Gamble Co (PG). Amount \$0.74
Zoetis Inc (ZTS). Amount \$0.16

(All analysts' estimates are according to I/B/E/S Refinitiv data)

PICTURE OF THE DAY



A flag of the U.S. flutters behind a Mexican couple kissing before crossing into El Paso, Texas, U.S. on the Paso del Norte international bridge, in this picture taken from Ciudad Juarez, Mexico July 17. REUTERS/Daniel Becerril

The Financial and Risk business of Thomson Reuters is now Refinitiv.

(Compiled by Avina Ajit and Swathi Nair in Bengaluru)

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