

MORNING NEWS CALL

REUTERS

U.S. Edition

Friday, January 19, 2018

TOP NEWS

• **Clock running out for U.S. Congress to avert government shutdown**

Racing against a midnight deadline, the U.S. Congress will try on Friday to send President Donald Trump legislation to keep the government operating and avoid federal agency shutdowns that would otherwise begin on Saturday.

• **U.S. puts HNA deals on ice until it gets ownership info –source**

The U.S. government will not approve any investment by HNA Group until the Chinese conglomerate, which has been scrutinized around the world over its ownership structure, provides adequate information on who its shareholders are, a source familiar with the situation said.

• **Schlumberger posts bigger fourth-quarter loss on charges**

Oilfield services provider Schlumberger posted a bigger quarterly loss than a year earlier as the company took charges of \$2.7 billion for restructuring and a handful of other impairments.

• **[Most U.S. states lost coal mining jobs in 2017 – data](#)**

Nearly two-thirds of U.S. coal producing states lost coal mining jobs in 2017, even as overall employment in the downtrodden sector grew modestly, according to preliminary government data obtained by Reuters.

• **IBM returns to growth after 6 years, but dour forecast hits shares**

International Business Machines' revenue rose for the first time in 23 quarters, beating analysts' estimates, but the company warned that a higher tax rate this year would eat into its profit.

BEFORE THE BELL

U.S. stock futures pointed to a record open for the benchmark **S&P 500** index as investors continued to bet on strong corporate earnings. Worries over a possible U.S. government shutdown weighed on the **U.S. dollar**, pushing **Treasury yields** up. **European shares** rose and **Asian stocks** closed higher as gains among miners following strong economic data from top metals consumer China helped offset a pullback in energy firms as **crude prices** fell. **Gold** prices rose. On the economic calendar, University of Michigan's preliminary January data is scheduled.

STOCKS TO WATCH

Results

• **American Express Co (AXP)**. The credit card issuer posted its first quarterly loss in 26 years and said it would not buy back shares for the next six months, both due to the impact of the recently enacted U.S. tax reform. The company took a \$2.6 billion charge to cover a new one-time repatriation tax on undistributed income of certain non-U.S. units and to adjust the value of its deferred tax assets and liabilities. Net loss attributable to common shareholders was \$1.20 billion, or \$1.41 per share, in the fourth quarter, compared with a profit of \$825 million, or 88 cents per share, a year earlier. Excluding the charge, AmEx earned \$1.58 per share, beating analysts' estimates of \$1.54 per share. Total revenue, net of interest expense, rose to \$8.84 billion from \$8.02 billion last year. That also topped analysts' estimate of \$8.72 billion. The company said it expects full-year 2018 earnings to be between \$6.90-\$7.30 per share.

• **International Business Machines Corp (IBM)**. The company's revenue rose for the first time in 23 quarters and beat analysts' estimates as the company's shift into its focus areas such as cloud computing and security services gains traction. IBM's quarterly profit, excluding a charge related to the recent U.S. tax overhaul, just edged past analysts' estimates and the company did not detail the expected impact of the new tax rates on current year's results. IBM's cloud business grew 30 percent in the fourth quarter. Revenue from all "strategic imperatives" rose 17 percent. Total revenue increased 3.6 percent to \$22.54 billion, beating analysts' average estimate of \$22.06 billion. IBM swung to a loss of \$1.05 billion from a year-ago profit of \$4.50 billion, due to a \$5.5 billion tax reform-related charge. Its adjusted profit of \$5.18 per share was a penny above analysts estimates.

• **Schlumberger Ltd (SLB)**. The oilfield services provider posted a bigger quarterly loss than a year earlier as the company took charges of \$2.7 billion for restructuring and a handful of other impairments. The company's net loss widened to \$2.26 billion, or \$1.63

per share, in the fourth quarter, from \$204 million, or 15 cents per share, a year earlier. Excluding items, the company earned 48 cents per share. Revenue rose 15 percent to \$8.18 billion.

IPOs

- **ADT Corp** (ADT). U.S. security company ADT, owned by private equity firm Apollo Global Management, said on Thursday its initial public offering (IPO) was priced well below its expected range, signalling investors are being picky about new offerings. The IPO priced at \$14 per share, compared to an original target range of \$17-\$19, cutting the maximum amount of funding the company could generate to \$1.69 billion, roughly a quarter less than what would have been raised had shares been priced at the top of the range. The \$14 share price values the U.S.'s largest provider of home security monitoring at around \$10.5 billion, meaning it will be one of the biggest stock market listings of the year. One person familiar with the IPO said investors were skeptical about ADT, which has total debt of \$10 billion, being positioned as a service-oriented business with high margins and strong cash flow. The company ended up selling an initial 105 million shares, with the underwriting banks having the chance to buy 15.75 million shares.

In Other News

- **Alphabet Inc** (GOOGL). Google has agreed to a patent licensing deal with Tencent Holdings as it looks for ways to expand in China where many of its products, such as app store, search engine and email service, are blocked by regulators. Google has previously said that agreements such as these reduce the potential of litigation over patent infringement. The agreement with the Chinese social media and gaming firm Tencent covers a broad range of products and paves the way for collaboration on technology in the future, Google said, without disclosing any financial terms of the deal.

- **Apple Inc** (AAPL). The company will release a software update that will allow users to turn off a feature that slows down iPhones when batteries are low on charge, Chief Executive Tim Cook told ABC News. Apple will release a test version of its iOS software next month that shows users the health of their batteries and will let them turn off a phone-slowng feature meant to prevent sudden shut-downs in iPhones with older batteries, Cook said in an interview with ABC News on Wednesday. Cook said the phone-slowng software, released last year, was intended to make sure that iPhone users did not get cut off in the middle of an important call or text message because of an old battery.

- **Berkshire Hathaway Inc** (BRKa). Ajit Jain, who was recently appointed a vice chairman of Warren Buffett's Berkshire Hathaway, on Thursday reported ownership of roughly \$109 million of the conglomerate's stock. Jain directly owns \$21.7 million of Berkshire stock, and indirectly owns \$87.5 million of Berkshire stock held by his wife, a family non-profit foundation and two family trusts, according to a regulatory filing. Berkshire last week appointed Jain, 66, its top reinsurance executive, as vice chairman for insurance operations such as the Geico auto insurer and General Re reinsurer. It also appointed Gregory Abel, 55, the longtime chief of its Berkshire Hathaway Energy unit, as vice chairman for non-insurance operations such as the BNSF railroad and Dairy Queen ice cream. Both were also named Berkshire directors.

- **Boeing Co** (BA). The plane maker is working to overcome the Brazilian military's objections to its proposed tie-up with Embraer with alternatives that would preserve the government's strategic veto rights and ensure safeguards for its defense programs, four people familiar with the matter told Reuters. The U.S. planemaker was forced back to the drawing board after Brazilian officials balked last week at the idea of turning Embraer into a subsidiary such as those that Boeing operates in Australia and Britain, according to the sources, who requested anonymity to discuss the negotiations freely. "Boeing came to buy Embraer, not for a partnership or a joint venture that we are open to, but to take control of the company. This was rejected," said one of the sources, a government official. "It is up to Boeing to come back with a new proposal."

- **Ford Motor Co** (F). Two senators asked the U.S. Transportation Department on Thursday to explain why a "do not drive" directive issued last week by Ford is limited to about 2,900 older pickup trucks and if other vehicles are potentially at risk from defective airbag inflators. The automaker said it had confirmed a second death in a 2006 Ford Ranger caused by a faulty Takata airbag inflator and urged some owners to stop driving immediately until they can get replacement parts. The National Highway Traffic Safety Administration should "swiftly and proactively address the deadly defect in Takata airbags and provide consumers with appropriate notice regarding the defect's serious potential risk to life," wrote Senators Richard Blumenthal and Edward Markey, both Democrats, to Transportation Secretary Elaine Chao.

- **General Motors Co** (GM). A federal bankruptcy judge on Thursday said a settlement agreement that would require General Motors to pay \$1 billion in stock to car owners suing the company over faulty ignition switches was not enforceable. Judge Martin Glenn of the U.S. Bankruptcy Court in New York said the agreement that car owners had reached with a trust that holds many GM liabilities from before its 2009 bankruptcy was not valid without signatures. The claims stem from GM's 2014 recall of 2.6 million vehicles with defective ignition switches, including one linked to 124 deaths. Lawyers for the car owners and the trust had agreed to a deal in August, but never signed the agreement. The trust walked away several days later, instead accepting GM's offer to help pay for the

trust's defense against the car owners' claims.

- **MetLife Inc (MET)**. The U.S. government and MetLife announced on Thursday they would jointly seek to dismiss an appeal over whether the insurance company should face stricter oversight as a key part of the financial system. MetLife and the Financial Stability Oversight Council (FSOC), a top federal panel of financial regulators, filed a joint motion to dismiss an earlier FSOC appeal, the company announced in a statement. "I am pleased that the Justice Department has settled the MetLife case, consistent with the recommendation by a majority of FSOC voting members," said Treasury Secretary Steven Mnuchin, who chairs the FSOC, in a statement. "I will be working with the Council to clarify and revise the non-bank designation rule and guidance."

ANALYSIS

U.S. workforce shortages bolster case for Fed rate hikes

HydraForce Inc is going to almost desperate lengths, including offering to bus in out-of-town workers, to find the muscle it needs to meet growing demand for hydraulic valves from its three factories north of Chicago. The Lincolnshire, Ill.-based firm, which wants to add 125 employees to its workforce of 850 this year, has six job fairs planned this month and next and is offering a "wheels-to-work" programme for workers without cars. Even higher wages - the company raised salaries last July and is planning to do so again early this year - have not enticed enough would-be workers, said Robyn Safron, HydraForce's human resources manager. HydraForce's story is an increasingly common one that backs up a broad range of economic data showing a tightening of the job market even in states like Illinois where unemployment, at 4.9 percent, exceeds the 4.1 percent national average. And that is making even some centrist policymakers at the Federal Reserve worried that the labour market could get too hot, tipping wage growth and inflation, stuck at low levels since the 2007-2009 recession, into high gear.

ANALYSTS' RECOMMENDATION

- **Bank of New York Mellon Corp (BK)**. JP Morgan cuts rating to underweight from neutral believing that the tax reform will not materially boost the bank's earnings in the near term.
- **Caterpillar Inc (CAT)**. Credit Suisse raises target price to \$192 from \$155 saying that demand is very broad based and positive momentum is expected to continue into 2018.
- **Chipotle Mexican Grill Inc (CMG)**. Raymond James raises rating to market perform from underperform based on the company's decision to take a third and final round of menu price increases and stabilizing industry demand trends.
- **International Business Machines Corp (IBM)**. Deutsche Bank raises price target to \$160 from \$150 to be more in line with management's guidance and on higher market multiples.
- **PPG Industries Inc (PPG)** JP Morgan cuts rating to neutral from overweight believing there is a relatively low level of capital appreciation to be captured in 2018 from the current share price.

ECONOMIC EVENTS

1000 U Mich Sentiment Preliminary for Jan: Expected 97.0; Prior 95.9

1000 U Mich Conditions Preliminary for Jan: Prior 113.8

1000 U Mich Expectations Preliminary for Jan: Prior 84.3

COMPANIES REPORTING RESULTS

Citizens Financial Group Inc (CFG). Expected Q4 earnings of 67 cents per share

Kansas City Southern (KSU). Expected Q4 earnings of \$1.37 per share

Regions Financial Corp (RF). Expected Q4 earnings of 26 cents per share

Schlumberger NV (SLB). Expected Q4 earnings of 44 cents per share

SunTrust Banks Inc (STI). Expected Q4 earnings of \$1.05 per share

Synchrony Financial (SYF). Expected Q4 earnings of 63 cents per share

CORPORATE EVENTS

08:00 SunTrust Banks Inc (STI). Q4 earnings conference call

08:30 Schlumberger NV (SLB). Q4 earnings conference call
08:30 Synchrony Financial (SYF). Q4 earnings conference call
08:45 Kansas City Southern (KSU). Q4 earnings conference call
09:00 Citizens Financial Group Inc (CFG). Q4 earnings conference call
09:30 First Horizon National Corp (FHN). Q4 earnings conference call
11:00 Regions Financial Corp (RF). Q4 earnings conference call

EXDIVIDENDS

Apache Corp (APA). Amount \$0.25
Acuity Brands Inc (AYI). Amount \$0.13
Caterpillar Inc (CAT). Amount \$0.78
Graco Inc (GGG). Amount \$0.13

(All analysts' estimates are according to Thomson Reuters I/B/E/S)

PICTURE OF THE DAY



A person waits outside fashion show of designer Marina Hoermanseder at the Berlin Fashion Week Autumn/Winter 2018 in Berlin, Germany, January 18. REUTERS/Hannibal Hanschke

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