



Independent
Research
Forum

The Cut - Edition 76

Introducing the very best of Independent Research
from the IRF Providers

Events

IRF Lunch: Behavioural Finance - Diversity & Inclusion with Herman Brodie

'Examining what happens in everyone's head when we engage with diversity'.

The Lansdowne Club - 14th January at 12.30pm

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[Prospecta](#)

IRF Lunch: European Short Ideas with Teun Teeuwisse

Forensic accounting techniques to unearth companies manipulating their earnings such as Steinhoff and Arysza.

The Lansdowne Club - 21st January at 12.30pm

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[IT Equity Research](#)

IRF Lunch: Global Economics with Gerard Minack

'More Goldilocks' - Economic growth is improving, interest rates are low, and there's almost no prospect of any major central bank tightening.

The Lansdowne Club - 29th January at 12.30pm

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[Minack Advisors](#)

IRF Lunch: Thematic Research & Asset Allocation with Sean Maher

Areas covered will include: Low carbon energy transition, the global competitive shock from increasingly sophisticated Chinese consumer brands and China tech

'decoupling' from the US.

The Lansdowne Club - 6th February at 12.30pm

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[Entext](#)

IRF Events Calendar

Company & Sector Research

— Europe

DS Smith (SMDS LN)

Materials

H1 results confirm short thesis and triggers further estimate cuts by Teun Teeuwisse, founder of TT Equity Research. Key concerns relate to P&L and CF adjustments, working capital (incl. factoring/reverse factoring), FCF, acquisition accounting and elevated debt levels. 55% downside.

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IRF Event

[TT Equity Research](#)

Electrolux (ELUXB SS)

Consumer Discretionary

Short thesis playing out as predicted - further downside expected. Call initiated Nov 19 citing market share losses, doubts about North American turnaround, weak organic growth, adverse inventory/CF trends and valuation concerns. Less than a month later the shares fell 10% following a profit warning.

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[Vision Research](#)

Frasers Group (FRAS LN)

Consumer Discretionary

Conservative accounting coupled with minimal mainstream coverage means underlying profitability has been hidden, but is much more stable than most investors realise. House of Fraser turnaround is well underway and product access is visibly improving. EBIT forecast 40% above consensus. Shares up ~90% since reiteration last year; still offers 40% upside.

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[StockViews](#)

GALP Energia (GALP PL)

Energy

Expensive on relative multiples and NAV having outperformed peers ahead of the new IMO regulations coming in this year. Key asset, Lula (Brazil) will soon move into decline and there is a significant CapEx burden from its Mozambique LNG projects. Significant downside to consensus EPS and FCF forecasts.

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[Palissy Advisors](#)

Novo Nordisk (NOVOB DC)

Healthcare

Biggest pipeline upside in EU Pharma for 2020. ~20% NPV uplift from Obesity and NASH data. First major catalyst will be Ozempic and Rybelsus CV outcomes label upside (20th Jan), followed by FY results (5th Feb). Expects 13% EPS growth in 2020.

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[Intron Health](#)

— North America

Unicorn Companies: A Growing Part of our World

45 unicorns went public in 2019 and dozens more are expected this year. Investors must take time to consider how best to approach them. New Street recently presented their "Thermodynamics of Unicorns", a framework to evaluate these disruptive and fast-growing companies. Favours **Uber** - expects a material rerating in 2020 and **Softbank Group** - the most compelling investment in their universe. Report has been made freely available on request.

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Polyethylene: Margin Crisis

The global petrochemical industry will see Winners and Losers emerging during 2020 as over-capacity created by the US shale-gas investments in polyethylene continues to impact margins. These have already gone negative in Asia and European margins have fallen 75% since June. Companies impacted include: **Dow Chemical**, **LyondellBasell**, **Westlake** and **Formosa Plastics**.

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Technology Themes for 2020

Focusing research on: Cloud - migration and repatriation; shifting priorities within security; changing dynamics in the end point protection market; acceleration in analytics; hyperconverged infrastructure and also 5G: ramp in spending is beginning. Positive: **Rapid7**, **Ring Central** and **Sailpoint**. Negative: **Arista Networks** and **Zscaler**.

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Industrials: No V-shaped Recovery

Prefers 'self-help' companies with value creation opportunities: **AMETEK** (benefits of Gata acq. & further M&A), **Dover** (refrigeration restructure, increased M&A) and **Honeywell** (cost cutting, attractive valuation vs peers). Avoid: **General Electric**, **3M** and **Rockwell**.

[Request info](#)[Gordon Haskett Research Advisors](#)

Restaurants: Store & Corp. ROIC Trend Analysis

Examines ROIC (new store, average store, total company) to isolate and identify trends which are then used as a forecasting tool. Companies where Street estimates for 2020 are too high include: **Cracker Barrel**, **Dave & Buster's** and **Shake Shack**. Companies to beat expectations: **Starbucks** and **Brinker Int.**

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Bear's Den Idea Forum

Key theme at their latest event was looking for companies with rapidly slowing growth. The most compelling ideas: **Factset** (secular headwinds intensifying), **Sinclair Broadcast Group** (RSN fundamentals rapidly decaying; over-levered) and **Fevertree Drinks** (TAM overstated; competition increasing). Previous Bear's Den saw 82% hit rate with 15.5% avg. alpha.

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Align Technology (ALGN)

Healthcare

BULL CASE

Share price to double over the next 5 years. Global market leader; estimates 19% p.a. organic sales growth as clear aligners take share from traditional braces. To benefit from increased treatment among teens, international expansion and the emergence of a consumer-directed market.

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BEAR CASE

Idea generated from their 'Breaking Growth Model'. Volume growth slowing, ASPs are flat and declining margins. New competition threat following key patent expirations. Large customers gaining bargaining strength as they consolidate and direct to consumer competitors are erupting everywhere (60% lower prices).

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[Two Rivers Analytics](#)

Peloton Interactive (PTON)

Consumer Discretionary

'A one trick fad fitness company'. Their market is nowhere near 12m units (more like 2m). Intense competition will force them to cut prices and gross margins will be cut in half. Churn far higher than management claims. Huge share dilution coming (Mar 20). 80% downside.

[Badger Consultants](#)

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Renewable Energy Group (REGI)

Energy

Raises TP from \$31 to \$58 after the appropriations bill was signed by President Trump. The company will receive ~\$500m in the next few months, plus an estimated \$900m over the next three years through the biodiesel tax credit programme. Significantly strengthens B/S; buybacks to commence straight away.

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[BWS Financial](#)

Tesla (TSLA)

Consumer Discretionary

No longer an 'investment grade' short, but rather a trading vehicle for those with accurate earnings estimates. In this regard, Unit Economics have consistently outperformed consensus expectations; 10.6% avg. gain over the 7 days following the company's earnings announcements (last 8 qtrs). Q4 consensus forecasts are far too low, but Q1 2020 is a whole different story...

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[Unit Economics](#)

Western Digital (WDC) & Skyworks (SWKS)

Technology

Featured in Summit's '2020 Best Ideas in Semiconductors' report. WDC: Flash pricing rebound and demand recovery for large capacity cloud HDD to drive earnings. SWKS: Will significantly outperform peers given 5G content growth and strong position at **Apple**.

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[Summit Insights Group](#)

Dentsu (4324)

Communications

Long-suffering shareholders had a nasty surprise last month when the advertising behemoth slashed its FY19 forecasts. Peering into the pot, Pelham Smithers spies a frog in hot water. Other companies recently covered include:

Sansan - Exciting prospects as it moves to being a Japan-style, LinkedIn-like company.

SRE Holdings Corp - Disappointing IPO provides an attractive entry point.

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IRF Event

[Pelham Smithers Associates](#)

— Emerging Markets

The Art of Dealing with Pinduoduo (PDD) & Alibaba (BABA)

RedTech interviewed merchants to discuss PDD and learn how it is responding to slowing user growth. Merchants are receptive to their push to sell more up-market brands, and they can tap into their popularity and growth without inviting BABA's wrath. This suggests PDD has room to continue thriving.

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[RedTech Advisors](#)

China Industrials: Positive Channel Checks

Provides Q4 data points and 2020 outlook from their latest Elevator and Excavator channel checks. Bullish backdrop for Machinery at least through Chinese New Year season. Elevator industry checks positive for companies including: **KONE, Schindler, Thyssenkrupp** and **United Technologies**.

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[Silk Road Research](#)

Mint Group (425 HK)

Consumer Discretionary

Chinese Auto supplier with secular growth prospects as it continues to gain greater share in the global supply chain (c.10% currently), driven by its niche

position in aluminium interior and exterior products. FCF to double over the next 3 yrs and an attractive 18% IRR.

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Macro Research

— Developed Markets

Bargain Currencies

Whilst the US Dollar and Swiss Franc remain the most overvalued currencies, the Nordics, Japanese Yen and Australian Dollar are bargain currencies. If business sentiment in 2020 improves, the USD will weaken.

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[Economic Perspectives](#)

Global Fixed Income: 2020 Outlook

US and G7 government bond yields to rise further in the coming year, driven by the manufacturing sector, higher inflation expectations and a further unwinding of overbought conditions. Remain short duration and underweight government bonds, while positioning for a mildly steeper yield curve. Overweight inflation-linked bonds, corporate debt and EM sovereign debt.

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[MRB Partners](#)

A Self-Limiting Eurozone

Growing monetary growth in the EZ is not a result of QE restarting. This environment will lead to a revival in trends, although this will remain obscured by world trade weakness and the negative inventory cycle. Any EZ recovery will prove self-limiting as bond markets are acting as extreme 'counter-cyclical' agents. No sharp revival in the economy to occur in Q1 although Q2 will prove to be more buoyant.

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[Andrew Hunt Economics](#)

Bricks & Stones: The Misleading Housing Market

Housing inflation will reaccelerate in 2020 and Single Home Family sales will collapse, worsening the situation of homebuilders' stocks that have already seen outperformance diminish. Bullish talks of accelerating home sales are the result of base effects, which will fade along with mortgage applications. Housing is an excellent place to build short hedges in 2020.

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Britain in 2020

As is the situation throughout Euroland, Japan and Canada, the industrial recession in Britain is far from over. The throttling of the influx of workers from abroad when Britain leaves the EU will bring forth stagflation. Regardless of what happens to inflation and GDP growth, the Bank of England will not hike rates in 2020.

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[High Frequency Economics](#)

Germany's Continuing Expansion

Germany's IP increase in Nov (+1.1%*m/m*) is consistent with a stabilising manufacturing sector, as the country remains in expansion mode albeit with modest growth. Nov export data shows that the German inventory drawdown is easing in Q4.

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[Suttle Economics](#)

— Emerging & Frontier Markets

The Missteps of the Chinese Dragon

China's missteps in extending its influence should be taken advantage of by the US and its allies. As China's fumbling initiatives in Sweden have shown, Beijing's mistakes can strengthen the anti-China alliance. If Trump focuses on such openings, the world's geopolitics could alter significantly.

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[Pennock Idea Hub](#)

Passive China

China's State Administration of Foreign Exchange (SAFE) announced its diversification of reserves - \$3.1 trillion would continue to rotate. Long Term Treasury Investment Holdings in 2019 confirmed Japan as the largest holder of US Treasury debt, taking the top spot from China - the latter is perceived to be more passive in USD investments going forward.

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[Rareview Macro](#)

Risk Aversion and Resilient EM's

Relatively high valuations and limited scope for rate cuts should not stop investors from being overweight Indonesia, Thailand and the Philippines in 2020. Limited exposure to China and lower financial risks compared to EM peers will ensure resilient markets as 2020 will oversee a serious increase in risk aversion.

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Taiwan's Fall to China

Chinese intervention in Hong Kong will result in an independence vote in Taiwan, spurring on direct Chinese intervention in the form of naval blockades and utility and wireless network attacks. Despite Taiwan's performance, all is not well.

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South Africa: An Economy in Darkness

February budget to disappoint, leaving it until mid-2020 before key narratives gain momentum. Growth to recover to 1.1%, but will be inadequate to stabilise unemployment and is easily derailed by blackouts. Fiscal consolidation will be minimal. South Africa cannot afford to bumble along for another year - right decisions may well be made, but only after the cliff edge.

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ESG

Beware the Corporate Taxes, They'll Bite Back

Falling tax rates have spurred on inequality and questionable public finances. Investors should pay attention to tax risks in portfolios: the reputational and financial risk stemming from firms overusing tax avoidance strategies. Chemical, hospitality, tech and casino sectors most at risk going forward.

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Commodities

Gold Sector & Implications of M&A

Significantly increased M&A in recent months highlights a disparity between the market and acquisitive company boards encouraged by a robust gold price. GMR believes some exposure to single asset stocks remains a valid investment strategy; favours **Pretium Resources** and **Torex Gold Resources**.

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[Global Mining Research](#)

Blockchain and Oil

Blockchain technologies are broadening into oil & gas procurement for the first time in 2020, which may help deflate shale costs by up to 10%. This advance is structuring "smart contracts" to replace labour-intensive and error-prone contracting. Leading operators and venture-stage companies highlighted as early adoptees of blockchain.

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[Thunder Said Energy](#)

Offshore Wind: The Key to the Future

Offshore Wind to drive the creation of 8m jobs, attracting \$1.3bn of cumulative investment which will lead to the build out of over 400 GW of electricity generating capacity. This source of renewable power will prove to be the key to decarbonisation.

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[Rethink Technology Research](#)

IRF works with 212 Independent Research Providers and Specialist Data Providers, which cover all the major Asset Classes, Sectors and Regions utilising a variety of methodologies.

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