The Cut

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IRF works with 103 Independent Research Providers covering multiple geographies, asset classes, industry sectors and methodologies.

Please contact us if you are interested in seeing the underlying research reports highlighted in The Cut, or if you have any specific research requirements:

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Events associated with IRF

- **Economic Perspectives** Presentation - How stagflation will impact global asset allocation, **27 June**, Innholders Hall, London. For further details **click here**. Please contact us if you would like to attend.

Researchers visiting London

- **Aliya Capital** - Calls with Senior Management in Technology Companies, organised by Ari Shrage, Founder, **VMware**, **Stamps.com**, **Yelp**, **Shutterstock**, **Akamai Technologies** and **Adobe Systems**, **20-27 June**

- **Gradient Analytics** - Global Shorts and Forensic Accounting, Brent Miller, Head of Research, **26-28 June**
- **Andrew Hunt Economics** - Global Macro, Andrew Hunt, Founder & Chief Economist, **27-28 June**
- **Enodo Economics** - China Macro, Diana Choyleva, Founder & Chief Economist, and Seamus Keaveney, CEO, **28-30 June**
- **Commodity Intelligence** - Global Commodity Insight, Mark Latham, Founder & Senior Analyst, **30 June**
- **Insight Investment Research** - Global Infrastructure, Robert Crimes, Founder & Senior Analyst, **5-6 July**
- **Huber Research Partners** - US Media, Internet, Information Services and Credit Rating Agencies, Craig Huber, Founder & Senior Analyst, **13-14 & 17-18 July**
- **JL Warren Capital** - China Stocks, China-related Stocks and China Macro, Junheng Li, Founder & Senior Analyst, **24-26 July**

Macro Research

1. **AAS Economics** - Slowdown in major economies to occur in second half of 2017; for bonds it means the bull market resumes
2. **Copley Fund Research** - Prior to the election global funds increase exposure to UK
3. **Economic Perspectives** - Extreme accommodation is pulling the Eurozone apart
4. **Harlyn Research** - A warning from history, high exposure to Euro equities can be dangerous
5. **Roskill** - New outlook report for tin sees battery demand soaring ahead as supply concerns continue to support higher prices
6. **Tempus Investment Research** - Recent key trends highlighted include, Korea's KOSPI 200 Index to continue higher; bear trend developing in the TR/CC CRB Commodity Index and 95.0 is a critical level for the US Dollar Index
7. **Third Year** - The deterioration in China's cycle has the largest impact on asset allocation this month
8. **Topdown Charts** - In New Zealand, will the combination of price overvaluation and macro-prudential tightening lead to a housing market crash?

Macro Research Snippets:

- **Asianomics** - Following UK election result, investors should short sterling with target US$1.1/£1
- **DeSaque Macro Research** - Current projections for the US suggest the arrival of an inverted yield curve towards the end of 2018 and a recession in 2020
- **Macro Intelligence 2 Partners** - After a strong run, investors should take profits in European ETFs

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Company Research

1. **Blueshift Research** - Are Amazon Web Services, Microsoft's Azure and Google in a position to cause major revenue damage to incumbent hardware/software vendors through their clouds' outside IT vendor integration policies? Yes, and vendors likely to be effected include: **Palo Alto Networks** (PANW US), **F5 Networks** (FFIV US) and **VMware** (VMW) as well as **IBM** (IBM US)
2. **Boyar Research** - **BUY Discovery Communications** (DISCK US), one of the world's largest pay-TV programmers, given significant revenue and cash flow visibility as well as a host of potential growth opportunities
3. **Renaissance Capital** - Issues **Outperform** rating on **Floor & Decor** (FND US) IPO; the company is a fast growing hard surface flooring retailer, with strong unit growth, high comp sales and a defensible moat
4. **Tematica Research** - **BUY Dycom** (DY US), a provider of construction and specialty services to the telecommunications industry; provides opportunity to take advantage of their favoured "Connected Society" theme
5. **Thompson Research Group** - Positive trends found in their recent aggregate, cement and concrete survey bodes well for companies such as **Vulcan Materials** (VMC US), **Martin Marietta** (MLM US) and **Summit Materials** (SUM US), all of which have **BUY** recommendations

Company & Sector Research Snippets:

- **Libra Investment Services** - Increasing exposure to the Industrial Goods sector; **LeGrand** (LR FP), is their preferred choice
- **Spin-Off Research** - Initiates coverage on **Societe Generale** (GLE FP) with a **BUY** rating; reasons include potential value unlocking from **ALD Automotive** (ALD FP) IPO, which is also recommended as a **BUY**
- **Stockcube Research** - **SHORT Wienerberger** (WIE AV), supplier of building materials, as it develops a short term price and relative top. They also opened a **SHORT** position in specialty chemicals company, **Evonik Industries AG** (EVK GR)

Macro Research

1. AAS Economics - Slowdown in major economies to occur in second half of 2017; for bonds it means the bull market resumes

IRF Note *– AASE's monetary quant modelling shows a generalised slowdown in major economies driven by reductions in central and commercial bank monetary injections. This will begin around 2H17, with forecast annual industrial production (IP) growth heading towards negative territory in most of the major economies by late 2017 or mid-2018. For bonds, it means the bull market resumes. Key points include (see attachment for charts):*

- Their MENGER (Monetary Econometrics National & Global Economic Research) model is used to estimate the trajectory of IP growth, and the "heat map" (*see attachment*) clearly shows declining growth rates beginning in late 2017.

- The standout loser is Japan, but Germany, Eurozone, South Korea, Switzerland and Russia will suffer significant declines as well.
- Government bond yields are seen declining from mid-2017 through to mid-2018.
- In terms of percentage point declines from current yields, the biggest winners are India and the US. If their view of oil prices is correct then this would not bode well for Russian bond yields (AASE expects a persistently weak oil price over the medium/long term.
- The risk has increased that Swiss 10yr government bond yields may be heading to significantly negative levels again from the end of 2017. This is consistent with AASE's previous analysis which highlighted the dire outlook for the Swiss economy in the medium term.
- With the exception of 10yr TIPS, the US Treasury curve is forecast to steepen slightly, especially when comparing the 2yr maturity against the 30yr maturity. This would be consistent with a weakening economy and with a resultant softer monetary stance from the Fed.
- Most major equity markets forecast to continue in uptrends over the next 12 months. Model favours US, UK, Hong Kong and Australia with increasing risks seen in China, Eurozone and Russia. Sectorally, most markets become more defensive over the next year.

Please contact us for details on the significant outperformance of AASE's Business Cycle Sector Selection Strategy

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2. Copley Fund Research - Prior to the election global funds increase exposure to UK

IRF Note *– Their Global Funds Asset Allocation Report, is where Copley Research Fund analyses the allocation trends within global equity long only funds. They find that more funds have been taking an overweight stance on UK equity, which now stands as the largest overweight country holding by a significant margin. UK Consumer stocks are the largest contributor to that overweight stance. Key points include:*

- The average fund allocation in UK equities has risen to 8.47%, a 12 month high. In addition, the percentage of funds that are overweight UK stocks has risen from 57% to 63% in just under 6 months. Total AUM stands at an 18 month high.
- In relation to other global nations, the UK now stands as the largest overweight holding, followed by the Netherlands (+1.3%) and France (+1.3%). Underweight country positioning is led by the US (-5.3%), Japan (-1.7%) and Australia (-1.6%).
- Since September 2016, the UK has seen the largest increase in relative positioning against all other nations. Significant weight increases from the Jupiter Global Fund (+25.25%), Oakmark Global Select Fund (+9.55%) and Carnegie Worldwide Global Fund (+5.31%) have contributed to the rise in UK exposures in this period.
- Consumer names are the most widely held, with British American Tobacco, Reckitt Benckiser and Diageo held overweight and by more than 20% of the global investors in the analysis.
- Key underweight holdings versus the MSCI AC World Index are HSBC, BP and Shell.
- They also highlight Compass Group as a stock showing continued positive momentum. While BHP Billiton is attracting new investment from global funds after years of declining ownership.

- On the negative side, Vodafone and Imperial Brands are losing investment on a consistent basis. Diageo, although still a popular holding is showing signs of weakness, as the current level of 23% of funds held is the lowest on record.

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3. Economic Perspectives - Extreme accommodation is pulling the Eurozone apart

IRF Note *- ECB spokesmen are still queuing up to insist that there is no urgency to remove the extraordinary monetary accommodation. Sluggish European labour markets provide plentiful political cover for their stance. These policies are pulling the Eurozone apart. Key points include:*

- After the release of robust Q1 growth data for the Eurozone, the macro-economic justification for the extension of negative deposit rates and full-steam-ahead QE is paper-thin. Worse, these extreme policies disproportionately favour northern countries.
- If this policy mix was working, then Italy would give the clearest demonstration of it. But Italy's basic balance of payments has deteriorated markedly in the past 2 years and foreigners are gleefully exiting their positions in Italian government bonds. The tapering and eventual curtailment of QE will be painful for the periphery, but it must begin soon.
- Using a broader measure of unemployment, similar to the US "U6" indicator, shows there is more slack in the region than suggested by the standard jobless rate. There are contrasting trends between Germany and those in the periphery. Moreover, the decline in this augmented measure has been more moderate than the standard unemployment rate.
- This slack is containing pay growth. The ECB has wrongly predicted a pick-up in wages in recent years presumably because their models use the standard unemployment rate. Their most recent wage forecast is also fairly optimistic.
- Subdued wage growth is likely to keep core inflation range bound. The hotspot remains Germany where a tighter labour market contrasts with more downbeat trends in the periphery. It is Germany that holds the key to higher Euro area wage growth.
- Economic Perspectives expects wages there to pick up in late 2017/2018 when trade unions start the next negotiation cycle. They suspect the increase in headline inflation (and in inflation expectations) will support higher nominal wage growth and expect wages for lower paid services sector jobs to be impacted by the earlier rise in minimum wages.

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4. Harlyn Research - A warning from history, high exposure to Euro equities can be dangerous

IRF Note *- There is a lot of concern that the ultra-low level of volatility may herald the death of the global equity bull market. But according to Harlyn's models, this has actually been a poor indicator. Two which have worked in the past are very low exposure to US investment grade credit and very high exposure to Eurozone equities, both of which we have now. But the lead-time from here could be between 10-30 weeks. Key points include (see attachment for charts):*

- Low volatility on its own is not a very good signal of what happens next. It worked in the run up to the GFC, but there was no significant signal in 1999/early 2000. There was also a huge false positive in 2013.
- The idea of a dominant sector pushing the US equity market off a cliff doesn't work. There are numerous examples of Harlyn's models recommending an overweight of 90% where the US equity market did not subsequently crash.
- Both of the major bear markets were preceded by a collapse of interest in investment-grade credit as an asset class. But it operates with a long lead-time: 52 weeks in 2002-03 and 33 weeks in 2007-08. As of now, we are 12 weeks into a period of very low exposure to US investment grade credit.
- Eurozone equities also seem to have a relationship with the overall cycle. In 2000 and 2007 (and 1998) their model had a very high exposure (30% +/-) just before the global equity cycle turned down.
- The Eurozone also seems to have a good relationship with the top of the equity cycle. The average period of very high exposure has been about 20 weeks. Harlyn's current exposure is 37% and has so far lasted 11 weeks.

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5. Roskill - New outlook report for tin sees battery demand soaring ahead as supply concerns continue to support higher prices

IRF Note *- According to Roskill, the market for tin was estimated to be in deficit for a second consecutive year in 2016, with the deficit amounting to nearly 4% of consumption in this year or around 14kt Sn (11kt Sn in 2015). In their new ten-year outlook for tin, Roskill is forecasting that consumption will grow by a cumulative total of 12% to 2027. Key points include:*

- Falling mine output in some of the world's largest mine producers of tin is expected to leave plenty of room for new mining projects to enter the market. 21 projects, out of 34 identified greenfield and brownfield expansions, may reach first production in the next ten years.
- On the demand side, tin consumption remains dominated by uses in electronic solders, driven by consumer demand for smartphones/tablets etc. As per-capita incomes continue to rise throughout the world, demand for consumer electronics appears set to soar further still.
- The greatest growth potential for tin is likely to be in automotive battery applications. Valve-regulated lead acid (VRLA) batteries have gained rapid market share. In 2016, the use of tin in lead-acid batteries approached 30kt; by 2027 it is expected to exceed 50kt.
- Tin prices have largely been supported not by rising consumption but by declining production. The exception has been in Myanmar, although mine production here is expected to have peaked because of declining grades and increasing costs as operations move underground.
- With the projects identified in Roskill's report, new operations could contribute up to 74kt tin-in-concentrate capacity by 2027, although Roskill expects the actual amount that will be added to be considerably less than that, providing continued support to prices.
- Roskill's new market outlook also provides insight into dynamics into the ever-volatile Chinese market, changing costs of production, and the various risks to supply, demand and prices.

Please contact us for further information regarding the outlook for tin

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6. Tempus Investment Research - Recent key trends highlighted include, Korea's KOSPI 200 Index to continue higher; bear trend developing in the TR/CC CRB Commodity Index and 95.0 is a critical level for the US Dollar Index

IRF Note *– Tempus Investment specialises in technical analysis with a statistical/quantitative bias, and a particular focus on Asian-Pacific markets utilising their Five Factor Momentum Model. In a recent edition of their flagship publication, "Tempus Chartline", they highlighted the following trends:*

- The global bull market is alive and well, but relative strength is currently swinging away from the US and into Europe and Asia.
- The apparent inflection point in sentiment towards the Euro-zone and consequent changes in the direction of fund flows are also reflected in the ongoing USD correction, which now appears to have further to go. 95.0 is seen as a critical level for the DXY.
- The Trump/reflation trade is well and truly over. IT related themes have resumed strong leadership in all markets, while the commodity and banking sectors are relatively weak.
- Korea's KOSPI 200 Index (KOSPI2) has been the big surprise of 2016 - ending a five-year period of ranging with a strong upswing and end-run round the 2011 high in just the last ~6 months. But if you think of the importance of the heavyweight IT sector to the KOSPI, the strong performance is less surprising given the dominance of the sector globally. A small set back is anticipated soon but the market is set to go higher still overtime (see *attachment for chart*).
- TR/CC CRB Commodity Index (CRY) - rallied sharply in early May but was equally sharply rebuffed at the 200d MA and has since fallen straight back down to support that has now been established in the 175 area. Another (weaker) rally is expected, but once it fades it will reinforce the impression that a bear trend is developing. Tempus Investment are looking for a lower top on the weekly chart and a downturn in the 40w MA (*see attachment for chart*).

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7. Third Year - The deterioration in China's cycle has the largest impact on asset allocation this month

IRF Note *- Third Year's Global Strategy report serves as a guideline for global asset allocation. It reviews all countries and markets covered by the strategy and gives cyclical investment recommendations. The latest report shows that overall the deterioration in China's cycle has the largest impact on the asset allocation, triggering a decrease in the global inflation signal, an increase in the position in gold and a net short USD stance. Key points include:*

- Australia - an alignment of fundamental drivers creates strong signals for interest rates; slower growth in China, high private-sector leverage, weaker consumption/housing activity and low inflation. By now, growth has deteriorated, triggering a cycle phase change to tightening. As a result, the strategy expands its defensive stance with an equity short signal.

- China - downturn has started. Following tightening measures, indicators suggest acute downside risk for growth, asset prices and financial stability in the often-analysed credit-driven economy. Therefore, the strategy expects below average returns in equities despite their seemingly cheap valuation.
- Brazil - beyond political uncertainty regarding charges against the president, the strategy upgrades the cycle phase from late recession to early recovery, driven by a pick-up of growth.
- South Africa - based on official GDP data, the economy has entered a recession. The strategy estimates that growth has improved by now, triggering a slightly less defensive position and going long the ZAR.
- Commodities - last month, the strategy exited its long commodity position due to China's downturn. The position was initiated early 2016 in anticipation of improving demand from global reflation. This fundamental reasoning has reversed due to tightening in the US/China and levered bubble risks.
- Gold - upgraded last month due to increased cyclical risk (US/China tightening) but also in China, there is an additional elevation of risk in the long-term debt cycle and BoP cycle.

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8. Topdown Charts - In New Zealand, will the combination of price overvaluation and macro-prudential tightening lead to a housing market crash?

IRF Note *– The New Zealand housing market in aggregate looks overvalued, particularly Auckland, and house prices have continued to move higher. The RBNZ has implemented a procession of macro-prudential tightening measures aimed at addressing risks to the banking sector from the housing market and in the process has triggered a slowing in the pace of gains each time. Key points include (see attachment for charts):*

- The drivers of strength in the New Zealand housing market include: A surge in net-migration, which over the past few years has amounted to about 6% of the labour force; so a significant boost in demand.
- A shortage in supply (e.g. in Auckland they need to build at least 13000 houses per year to keep up with demand, completions are running around 6-7000 per year).
- Low borrowing costs (albeit recently banks have moved mortgage rates up marginally, and tightened lending standards).
- Significant yield support (rental yields are at the bottom end of the range but still look attractive vs. term deposits or government bond yields).
- In order for property prices to collapse, you would need to see some of those positive drivers dissipate.
- The average rental yield being at a historical low, lines up with the OECD housing affordability metrics (price to rent/income ratio indicators) to paint a picture of an overall overvalued market (contrast Auckland at 10x median income vs 3x in Invercargill). And in this situation, it often doesn't take much to drive a correction in prices.
- It's likely to be only a temporary slowdown, and if anything the macro-prudential tightening measures probably mean a longer housing market cycle, and lower inflationary pressures - less overheating. Were it not for the macro-prudential measures implemented to date you'd probably see a higher OCR than present, and it's a backdrop that will likely reinforce the idea that the RBNZ remains on hold through 2019.

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Macro Research Snippets:

Asianomics - Following the UK election result, the UK is now left in a position of extreme weakness with respect to the Brexit talks. Mrs May apparently went to the country to receive a huge mandate on her Brexit negotiating position. Instead, she has been humiliated. The UK will be subject to waves of uncertainty and instability. Sterling will come under much more pressure. As the slowest growing country in the G7 there is an argument that it needs a much weaker currency. Asianomics believes that to be true, their target remains US$1.1/£1. Short sterling until there is a sign of competency in government. **Click here** for a short overview of this researcher

DeSaque Macro Research - Historically, inverted yield curves have been far more robust leading indicators of recessions than equity prices. Given the baseline Fed policy outlook, driven by data dependency, of a glacial increase in the federal funds rate, the current projections suggest the arrival of an inverted yield curve towards the end of 2018. The probability of a recession after this date will depend on the extent to which the Fed continues, if at all, to tighten. History indicates that the US economy does not immediately fall into recession once yield curve inversion arrives; it suggests the onset of recession in 2020. **Click here** for a short overview of this researcher

Macro Intelligence 2 Partners - they first suggested buying European equity ETFs back in early December 2016, but believe now is the time to take profits, having had an impressive run, especially the unhedged Spanish (EWP) and Eurostoxx (EZU) indexes. The shift in fundamentals MI2 were expecting has been increasingly priced, positioning has adjusted, momentum is slowing, and the risk of a retracement is rising. Although MI2 does acknowledge that Europe may continue to perform well in the coming quarters on a relative basis, given the easy/reflationary ECB policies; broad European equities, as represented by the MSCI Europe ex-UK, are now back up to levels that have previously proved insurmountable (*see attachment for chart*). **Click here** for a short overview of this researcher

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Company Research

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1. Blueshift Research - Are Amazon Web Services, Microsoft's Azure and Google in a position to cause major revenue damage to incumbent hardware/software vendors through their clouds' outside IT vendor integration policies?

***IRF Note** – Blueshift Research put this question to 22 of their executive sources working in all areas of enterprise networking. Key points include:*

- Microsoft, Google, and especially Amazon are expected to cause havoc among incumbent IT providers of all stripes, as they move to include many services related to

security, application workload, load balancing, app acceleration, database, virtualisation and storage, into their platforms.
- Amazon is noted specifically as it is said to be cutting deals where it will take up to 90% of revenues charged for hosting IT vendors' wares.
- Particular vendors to be effected include **CHKP**, **PANW**, **FTNT** (security firewall), **FFIV** (load balancing, app acceleration), **VMW**, **CTXS** (virtualisation).
- The rapid development of new services and features in the AWS cloud will doom **IBM**'s efforts to ever truly compete in large-scale cloud computing. Clients can run IBM software on their big cloud platforms, but ultimately will find that they will not need to. The same is true for Oracle's database business.
- AWS' CloudFront content delivery competes directly against **AKAM**. While AKAM does have its advantages, sources said/research has shown, that AWS is taking the vast majority of mobile apps that deliver content - the fastest growing segment of the CDN market.
- On the positive front, **RHT** appears poised to work well with folks like Amazon through its supported open-source platforms. AWS and Microsoft both run RHT in their clouds and use this as a sales incentive for new clients.
- "The big secret that any of these vendor companies are desperate to hide is that moving over to AWS is a way to leave the individual vendor companies behind, to get out from under paying them. It's going to be a slow ending for some of them. For others, it's already happening." - CEO of a network integration firm.

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2. Boyar Research - **BUY Discovery Communications** (DISCK US); given significant revenue and cash flow visibility as well as a host of potential growth opportunities

IRF Note *- Discovery Communications is one of the world's largest pay-TV programmers reaching more than 2.8bn cumulative viewers worldwide through its various networks. During 2016, DISCK generated $6.5bn of revenue, which was fairly balanced by geography (US: 50%; International: 47%; Education/Other: 3%) and source, with distribution revenues accounting for 49%, advertising for 45%, and Education/Other for the balance. Key points include:*

- Following a number of key affiliate fee renewals in both US and international markets, DISCK has significant revenue and cash flow visibility. Notably, international affiliate fee revenues are expected to increase at a low-double-digit percentage rate over the next few years.
- A host of potential growth opportunities should favorably impact Discovery's future results, including increased consumer adoption of Discovery GO (streaming content); further traction with various subscription-based initiatives, including the Eurosport Player; and increased pay-TV penetration in key international markets.
- Since 2010, DISCK has deployed $8bn toward buybacks (~50% of its current market cap) - reducing diluted shares outstanding by over 30%, including $1.4bn utilised in 2016 to repurchase ~53m shares at an average cost of ~$26 a share.
- Boyar expects share repurchases to be a recurring theme as a result of the company's strong revenue and cash flow visibility, coupled with a currently depressed share price and attractive valuation, they recommend buying DISCK.
- Applying discounted multiples (relative to precedent industry transactions) of 10.0x and 9.0x their 2019E EBITDA for the US and International Networks segments,

respectively, Boyar derives an estimate of intrinsic value of $47 a share, representing 73% upside from current levels.
- They also continue to believe that Discovery represents an attractive acquisition target.

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3. Renaissance Capital - Issues **Outperform** rating on **Floor & Decor** (FND US) IPO; a unique retailer, with strong unit growth, high comp sales and a defensible moat

IRF Note *– Renaissance Capital issued a bullish pre-IPO report on Floor & Decor, a fast growing hard surface flooring and accessories retailer with 72 warehouse format stores in the US. They expected the stock to be highly sought after by growth investors, given there are very few differentiated retail concepts with a similar earnings growth profile. The following covers their original analysis as well as recent coverage on the stock valuation following its very strong performance since listing. Key points include:*

- Eight years of double-digit comp store sales, averaging 15.3% with improving margins.
- The large format store and direct sourcing model allows for pricing and SKU depth that neither the big box home improvement stores nor specialty retailers can match. E-commerce is not a threat, due to the high cost of shipping heavy flooring.
- Attractive store economics with 2.5 year payback. Its new stores consistently outperform, and its older stores also post high single-digit comp sales due to its relatively high percent of repeat professional customers.
- Large white space opportunity of 400 stores nationwide, targeting 20% annual unit expansion and 25% net income growth. Capex will hover near $95-100m per year with 60% allocated to new stores. The model should become self-funding in 2018, with material free cash flow generation in 2019/20.
- Negatives include dependence on the home remodeling cycle and high inventory ($294m); also paid insiders a $202.5m debt-funded special dividend in December 2016.
- Investment rating is 17 out of 20; calculated using company fundamentals, corporate governance, relative valuation and group technicals as categories.
- Having priced its IPO at $21, well above the $16-18 range, the shares have since increased in value significantly. Renaissance believes material upside to their forecasts and/or underlying earnings growth are now required to driver further, sustainable moves in the stock.

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4. Tematica Research - **BUY Dycom** (DY US); provides opportunity to take advantage of their favoured "Connected Society" theme

IRF Note *– Tematica recommends Dycom, a provider of construction and specialty services to the telecommunications industry, to take advantage of one of their current favourite themes, "Connected Society". The shares came under significant pressure, dropping over 25%, after reporting a softer than expected near-term outlook. Tematica thinks this presents a buying opportunity, with the main issues only being a combination of timing and investor expectations. Key points include:*

- During the last quarter, the mild winter weather allowed Dycom to pull forward projects from the current quarter. Odds are investor enthusiasm for 5G deployments had gotten ahead of itself, helping the share price soar to a 52-week high of $110 (from the low $80s in January).
- The shares are now back at early January levels, but from a fundamental perspective, Tematica continues to see both cable and mobile operators expanding existing network capacity and launching new, next-generation networks to meet the nearly unquenchable demand for data.
- Dycom is seeing a broadening set of customer opportunities that are in the initial stages of planning, engineering and design and deployment. The company is also continuing to win contracts, as customers work to improve their network capabilities and performance.
- Keep tabs on Dycom's customer base, respective network-capacity additions and new technology deployments, such as fibre to the home and business, as well as 5G backhaul.
- Timing bumps like this have occurred in the past with Dycom and similar companies, and these pullbacks tend to present a buying opportunity - provided the fundamentals remain intact, which Tematica believes is the case here.
- Buy - with a PT of $115.

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5. Thompson Research Group - Positive trends seen in their recent aggregate, cement and concrete survey

IRF Note *– Throughout 2016, Thompson Research Group (TRG) was focused on the dynamic of the positive impact of rising capacity utilisation and visibility to future pricing. In line with TRG's own views, their industry sources also believe we are seeing a manifestation of this theme in 2017, not only in the aggregate industry but also in several building product categories. This bodes well for companies such as* ***Vulcan Materials*** *(VMC US),* ***Martin Marietta*** *(MLM US) and* ***Summit Materials*** *(SUM US), all of which TRG currently recommends investors buy. Key points include:*

- Q1'17 results may not be indicative of what to expect throughout 2017. Very tough YOY comps, rain and snow, meant challenging volumes in key markets.
- Bullish survey results: 2017 Public expectations – 78% of respondents expect "Up" YOY volumes; Residential expectations – 90% expect "Up" volumes and Non-residential – 80%.
- Backlogs are building, bid activity has improved and any weakness in certain categories is now being overshadowed by strength in other, larger end markets (highway construction to data centres). There is already concern that certain markets may be "tight" on clean stone supply by this summer, despite measures to prepare in advance.
- TRG previously highlighted that a secular change in funding at the state level was driving significant upside to highway funding levels. This theme continues, California recently increased annual funding by ~35% to $5.2bn. One source said, "California now feels like Texas 5 years ago". Indiana, South Carolina and Tennessee have also passed new funding legislation since the beginning of the year.
- The shortages of land and labour in certain markets allows for a favorable pricing market. As end-users are willing to pay more to prioritise their project given limited resources, pricing could be the biggest driver to building materials companies.
- Trump Stimulus Plan is considered another layer of icing on an already "rich" cake.

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Company & Sector Research Snippets:

Libra Investment Services - **LeGrand** (LR FP) is screening as a 5-star green (highest rating) just as the Industrial Goods sector has moved into the top 4 on Libra's Beta Heatmap. Since the shares rallied strongly in April, there has been a period of consolidation, as Fair Value (FV - up 5% over the last month) and Intrinsic Value (IV - up 8% over the last three months) have continued to trend higher. The shares have found support at the bottom of the FV range and should now resume their upward path. Given the risk, return and growth (absolute and relative) expectations against its peers, LeGrand is their preferred choice, in a sector that Libra are looking to increase exposure to. **Click here** for a short overview of this researcher

Spin-Off Research - earlier this year **Societe Generale** (GLE FP) announced that it intended to float a limited stake in its subsidiary **ALD Automotive** (ALD FP), a full-service leasing and fleet management company, and last week details of the IPO were announced. Spin-Off initiates coverage on Societe Generale with a Buy rating and a target price of €54.00 per share given its strong capital structure, lower 1Q17 provisioning and potential value unlocking from ALD Automotive IPO. They value ALD Automotive at a premium relative to peers, given value-accretive deals, strong profitability and favourable market environment. Target price is €22.00 per share (IPO pricing range €14.20-17.40). **Click here** for a short overview of this researcher

Stockcube Research - Combining major technical indicators, price, volume, momentum and relative with other proprietary tools, their analysis produces alpha-generating ideas. This week they opened a short position in building materials supplier, **Wienerberger** (WIE AV), vs. DJ Euro Stoxx as it develops a short term price and relative top (*see attachment for charts*). Abs. Target is €17.50. They also opened a short position in **Evonik Industries AG** (EVK GR), a speciality chemicals company, as it develops a short term top on weak VAD (Volume Accumulation Distribution) whilst breaking relative support (*see attachment for charts*). Abs. Target is €25.00 with a stop set at €31.50. **Click here** for a short overview of this researcher

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