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The Cut - Edition 28

Introducing the very best of Independent Research from the IRF Providers

Mr MiFID, Steven Maijor, ESMA Chairman: *"...If a smaller portfolio manager can improve his performance because he can see that an independent research house can help him with his performance, I do not see why he would not be willing to pay for it. If I were an asset manager and could improve my performance, I do not see why there wouldn't be a market developing for research in this area."*

There is indeed a market developing in this area and IRF are at the forefront, facilitating the matching of Independent Research with Asset Managers

Company Research

Europe

- **Aryzta** (ARYN SW) - Questioned P&L accounting, aggressive acquisition strategy and excessive debt; consensus far too positive on cash generation potential. Latest: Another profit warning; ARYN needs to raise €1,200m. New CFO now has the opportunity to clean-up the mess and finally raise capital - **[TT Equity Research](#)**
- **BCA Marketplace** (BCA LN) - The market seems to be underestimating the capital intensity of recent and future growth alongside building balance sheet risk. Have concerns around corporate governance and the strength of the business model - **[StockViews](#)**
- **Glencore** (GLEN LN) - Key name to play the EV growth theme. Cobalt will generate nearly 20% of company's EBITDA in 2018. Unwarranted valuation discount with peers - **[Palissy Advisors](#)**
- **WPP** (LN) - Not unusual for markets to be behind the curve on this company, or conflate cyclical with structural growth. A more nuanced approach maybe required by investors to the industry's current problems. Markets pricing in a recessionary valuation on an already depressed base of forecasts - **[WYT](#)**
- **Container Shipping** - Demand buoyancy drives positive outlook. Companies covered include: **Hapag-Lloyd, AP Moller Maersk, Evergreen Marine and Yang Ming Marine** - **[Drewry Maritime Financial Research](#)**

- **FTSE 100 stocks & sector review** - New market conditions evident, momentum uptrends given way to range trading. Model portfolio OW Mining, Packaging and Travel. No sign of rotation into Defensive/dollar earners - **Messels**

U.S.

- **Attractive short opportunities in biotech and medtech** – Published 20 short ideas since Aug'16 with 75% generating absolute returns to the short seller. Recent successful calls (long & short) include: **uniQure**, **Glaukos Corp** and **Spark Therapeutics** - **Bios Research**
- **Atkor International** (ATKR) - Recently announced share buyback transaction is an example of an event-driven situation being completely disregarded by the market due to nervous and volatile trading conditions. EV/EBITDA multiple of 7.6x; FCF Yield of 9.7% - **Etalon Investment Research**
- **DowDuPont Inc.** (DWDP) - Strong Q4 numbers, with higher EBITDA margins in almost every segment. Cost and growth synergies upped; Spin timeline accelerated - **Alembic Global Advisors**
- **Facebook** (FB) - Raises estimates and PT again. Although prefers **Netflix** (less risk to an eventual revenue disappointment). UW traditional media stocks, which continue to bleed advertising to FB and **Google** - **Huber Research**
- **Legg Mason** (LM) – Poor industry fundamentals are masking an operational turnaround. Strong performance profile points to potential future inflows. Should benefit from rising interest rates – **Boyar Research**
- **LendingTree** (TREE) - JP Morgan Chase becomes the second high-profile customer loss recently. Big cause for concern given the state of the housing market brought on by higher interest rates - **BWS Financial**
- **Lululemon** (LULU) - CEO out; Glen Murray, the new Executive Chairman, has special situations credentials. He would certainly benefit from a possible sale. Could **VF** or **Nike** be interested? - **Gordon Haskett**
- **MGM Resorts** (MGM), **Nike** (NKE) and **Delta Airlines** (DAL) highlighted - **Phases & Cycles**. Average gain among 49 recommendations over the last year was 22.2%; **Microsoft** and **Cisco Systems** were the best performers
- **PagSeguro Digital** (PAGS) - Pre-IPO analysis of this fast-growing, Brazilian payment solutions provider. Rose 36% on its first day of trading; projected earnings CAGR of over 30% - **Renaissance Capital**

Japan

- **Strike** (6196) – Japan's #3 ranked M&A advisory firm is reaping the benefits of its TSE 1 listing as contract numbers and average transaction values increase - **Storm Research**. Storm's portfolio currently includes 34 stocks with an average absolute return of +62%

Macro Research

- **Bond panic** – Liquidity & capital flows warn of a deflating bond bubble, not flattening yield curves! US 10-year bonds to test 3.5% yields this year – **CrossBorder Capital**
- **Global economy** is in good shape especially in Asia; strong growth to bring higher inflation; USD trending down; commodities up - oil is best – **ECU Group**
- **Grain prices approach support** - Corn, Wheat and Soybean prices are poised for upside as extreme short positioning is likely to reverse – **Dantes Outlook**

U.K.

- **Consumers batten down the hatches before Brexit** - Consumer confidence peaked in 2015. Financial conditions have tightened for lower income households. Employment hours are peaking, business failures mounting and Corbyn is waiting in the wings - **Economic Perspectives**
- **Limping towards a recession?** - Two factors to watch: the path of wage inflation over coming quarters and the speed of interest rate hikes in the UK and the RoW (specifically the US). Proprietary models show how UK is vulnerable from structural standpoint - **Longview Economics**

U.S.

- **S&P 500** - Indicator behaviour and price action point to a short-term low soon. A positive divergence in Daily OB/OS on a minor new price low would be a signal that the decline is complete then new rally to April 2018 - **SMI**
- Finally beginning to see tight labour market conditions spillover to wage inflation. **Add long USD exposures** against a basket of currencies including **AUD, CNH, MYR and NZD** - **Redward Associates**

Emerging Markets

- OW positions currently topped by **Consumer Discretionary, Consumer Staples, Russia** and **Indian Financials**, will be key in determining active

manager outperformance in 2018. The **Tencent** UW position is a standout; it is by far the most important stock for EM investors this year -

Copley Fund Research

- Models **increasing exposure to EM equities** - Favours China, Thailand and Singapore; avoid Latin America and prefers Austria as the play on Eastern Europe - **Harlyn Research**
- **China risk** - The Li Keqiang Index fell by 1.6 standard deviation in August and has been falling ever since. Other risk regime tests imply lower returns for China-related assets – **IR&M**
- **Mexico** - Cyclical tailwind bodes well for asset prices, which have recently lagged EM peers as well as DM. Inflation expected to fall, creating scope for monetary easing; expect a rebound in consumption - **ThirdYear Capital**
- **South Korea** - Downside risks to growth rate this year; economy has lost momentum over recent weeks, particularly with regard to its important export sector - **Andrew Hunt**

Researchers Visiting London

- **European short equities with Teun Teeuwisse of TT Equity Research** - Steinhoff, Aryzta and Arcadis. **12-13 February**
- **Global Macro, emphasis on China and Copper industry with Simon Hunt of Simon Hunt Strategic Services**. China: growth to reaccelerate over the next few years. Bullish copper outlook. **22-23 February**
- **US & European Retail companies with Stacey Widlitz of SW Retail Advisors** - Urban, Adidas, Nike and Under Armour. **23, 26-28 February & 1, 5-6 & 9 March**
- **US equities with John Boyar of Boyar Research** - American Express, PayPal and Time Warner. **6-7 March**
- **Primary Insight with Leighton Thomas - Cost effective expert network. 12-13 March**
- **Forensic Accounting Presentation for equity investors with Paul Nagy of PN Finance. March & April 2018**
- **Story Investing with Alex Gavrish of Etalon Investment Research (event-driven value equities). 2-4 April**

Note: All **bold underlined** text are clickable links to Research Provider Overviews.

IRF provides institutional investors with expertise across an increasingly fragmented investment research industry in readiness for the post MiFID II world. We work with 120 Independent Research Providers covering multiple geographies, asset classes, industry sectors and methodologies.

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