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The Cut - Edition 33

Introducing the very best of Independent Research from the IRF Providers

Events

- **IRF Lunch with Guest Speaker Simon Hunt, [Simon Hunt Strategic Services](#)** - China's Resurging Growth: Implications for the Copper Industry. Lansdowne Club, London. **3 May** [Confirm attendance](#) - **Last Chance to Register**

Company Research

Europe

- **Hamburger Hafen und Logistik (HHFA GR)** - Promising FY17 results. Comfortable liquidity position and positive FCF generation to support capital expenditure requirements and dividend payout. Eying international markets for growth avenues - [Drewry Maritime Financial Research](#)
[request info](#)
- **Software AG (SOW GR)** - Strengthened product portfolio, while the emerging IoT market offers better scalability and a rising share of recurring revenues. With a pre-tax margin of ~30%, an improvement of the asset turn of just 0.1x lifts the after-tax ROCE by ~200bps - [EquiVal](#)
[request info](#)
- **Rio Tinto (RIO LN)** - Recently been positive regarding buying higher beta sectors and Resources, in particular. RIO shares trade at a net 7% discount to Fair Value while value trends are growing once again - [Libra](#)
[request info](#)
- **Vestas Wind Systems (VWS DC)** - Industry leader and growing market share. Strong and consistent FCF; ROE 30%+. Aims to increase high margin service business revenue by 50%+. Currently trades at 13.1x P/E vs. 4-yr avg. of 16.3x - [VIP](#) [request info](#)

- **eSports to take video gaming into entertainment mainstream** - Bullish tailwind for console makers and publishers - ***Entext***
 - **Activision Blizzard** (ATVI) has begun selling Overwatch team franchises at \$20m each; the notion of billionaires outbidding each other for leading gaming teams is plausible within the next few years [request info](#)
- **Murphy USA** (MUSA) - Gas station & convenience store chain. Recent share price weakness presents an attractive entry point. EV/EBITDA multiple: x7.2; FCF Yield (CFO minus estimated maintenance and corporate CapEx): 9.5%. Development/capex story - ***Etalon Investment Research*** [request info](#)
- **Tempur Sealy** (TPX) - Manufacturer of mattresses & bedding products. Stock down 29% since initiation. Uncovered by their Breaking Growth short model. Remains expensive on over-optimistic assumptions in a highly competitive market. Prices/margins under pressure, weak brand loyalty and high leverage - ***Two Rivers Analytics*** [request info](#)
- **Zscaler** (ZS) - Information security company; recent IPO
 - No one can compete with their depth and breadth. Why is ZS different? Its products are all born in the cloud. Growth rates will be well in excess of the overall cybersecurity market for at least the next few years - ***Inflection Point*** [request info](#)
 - A play on two secular growth themes - Cloud and Mobility. Deep moat; predictable revenue model; rapid growth; acquisition target - ***Summit Insights Group*** [request info](#)

China

- **Hotel Industry** - Continuous improvement in the supply and demand structure will provide support to a rise in both occupancy rates and room rates in 2018 - ***Horizon Insights***. Report highlights:
 - **Jin Jiang International Hotels Group** (2006 HK) - Market leader, with coverage now extending from economy to high-end hotels. Earnings to grow by ~25% in 2018 [request info](#)

Japan

- **Inter Action** (7725) - Manufactures illuminators & pupil lens modules for use in CCD & C-MOS image sensor testing equipment. Expect structural growth in the image sensor market to propel rapid earnings growth as it

Macro Research

Developed Markets

- **[Antipodean Capital's](#)** Q1'18 Global Macro portfolio produced a return of +6.75%. Current views include:
 - **Investment cycle has 3-9mths left.** Global activity cycle, lead indicators and liquidity cycle peaked Jan/Feb
 - **Inflation cycle to peak** July/Aug, producing further monetary policy tightening while growth is slowing
 - **Reduce equities, HY bonds, EM stocks.** Alternatives, especially long volatility, should be at or near maximum weights [request info](#)
- **Asymmetric risks for growth are squarely on the downside** as the Fed and the IMF have chosen to exclude trade and tariff risks to US and global growth from their forecasts - **[Prestige Economics](#)** [request info](#)
- **European equities to shine?** - Due to abnormally low volatility compared with the US and global equities and the ongoing stabilisation of the trade-weighted dollar index. The preferred countries are the UK, France and the Netherlands - **[Harlyn Research](#)** [request info](#)
- **UK - BoE is close to hiking again.** Expects rate hikes every six months back to a neutral rate near 2% - **[Heteronomics](#)** [request info](#)
- **NAFTA: Progress, but no Finish Line** - The news on NAFTA remains encouraging, as the White House responds to US pro-trade constituencies, but **[Capital Alpha Partners](#)** remain sceptical of an April-May finish [request info](#)
- **US equities look higher into May 2018**, with only modest possible weakness short-term (SP 500 -2% max). Best sectors: Software (IGV), Internet (FDN), Materials (VAW) and Small Caps (IJR) - **[SMI](#)** [request info](#)
- **Financial conditions leave the Fed behind the curve** - Either assets drop sharply or eventually the Fed Funds Rate is going a lot higher - **[MI2 Partners](#)**. Their model (uses 80+ variables) suggests that based on historical norms the macro "fair value" for Fed Funds should be 4.5% [request info](#)
- How to use the tools of behavioural finance to study **how shifts in crowd behaviour affect markets** - **[HED Capital Management](#)** [request info](#)

Emerging Markets

inflation, as some market pundits suggest, and in fact inflationary pressures at home have now eased for three consecutive quarters

[request info](#)

- **New housing market strategy could further underpin China's consumer revival** - Xi wants to dampen house price inflation and eradicate the idea that housing is a speculative play. Any negative wealth effect from a stagnation in house prices will be a headwind - **Enodo Economics** [request info](#)
- **Mexico** - A much improved valuation picture for Mexican equities, paired with a possible turn in the cycle and bullish setup for the Peso make for an interesting contrarian opportunity - **Topdown Charts** [request info](#)
- **Russian equities now facing very binary outcomes** - Latest round of sanctions means minority investors face risks at the hands of both the US and Russian governments. Investors in China should also be wary - **Ecstrat** [request info](#)
- **Turkish lira** - Negative view, as given the current pace of growth, the trade deficit is likely to continue to widen while funding is tight notwithstanding renewed portfolio inflows. The trade deficit (everything else kept equal) would stabilise only if the lira weakens to 5.5 against the dollar - **ADA Economics** [request info](#)

Commodities

- **Steel prices to fall** a further 15% and **iron ore prices** at least 10% in Q2 - Steel mills and traders were optimistic about the market in January, but that has worn off, and the industry is now showing declining demand and rising inventories - **J Capital** [request info](#)

Researchers Visiting London

- **Monitoring and Analyses of 'Insider' Transactions with Michael Tindale of Smart Insider. 2-3 May** [request meeting](#)
- **Equity Valuation, Risk and Market Timing with Rob McCreery & Chris Tinker of Libra Investment Services** - Lloyds, Fiat, Stora Enso, Steinhoff, Unilever, Burberry. **5-7 May** [request meeting](#)
- **European Credit Research with Mirela Vlad & Julien Rerolle of Spread Research. 23 May** [request meeting](#)

[request meeting](#)

- **Behavioural Science with Herman Brodie of [Prospecta](#). 28-31 May**
[request meeting](#)
- **US Semiconductor Companies, Software/Hardware, with Srin Nandury & Jagadish Iyer of [Summit Insights Group](#) - Nvidia, Intel, Palo Alto Networks, Commvault, NetApp, Teradata, Nutanix, Tableau. 6-7 June** [request meeting](#)
- **US Short Ideas with Eric Fernandez of [Two Rivers Analytics](#) - LifePoint Health, Tempur Sealy, FTI Consulting, Sally Beauty, DexCom, J2 Global, Acuity Brands. 6-7 June** [request meeting](#)
- **Global Economic Insights with Carl Weinberg & Wayne Pasternack of [High Frequency Economics](#) - Can we trust the LEI to signal the next US recession? Secular vs. cyclical: Japan's economy is in trouble. Preparing for Brexit: A DIY model of supply-side shocks. 7-8 June**
[request meeting](#)
- **Financials: Keeping an Eye on Washington with Charles Gabriel & Ian Katz of [Capital Alpha Partners](#) - Perception of US de-regulatory trend oversimplifies matters. Still in the cross-hairs: Non-bank Specialty Finance, Credit Bureaus, Cards, Insurers, Banks, Mortgage Insurers, Fannie and Freddie, Marketplace lenders. 2-4 July** [request meeting](#)

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

IRF works with 130 Independent Research Providers covering multiple geographies, asset classes, industry sectors and methodologies.

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