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The Cut - Edition 38

Introducing the very best of Independent Research from the IRF Providers

Company Research

Europe

- **Covestro** (1COV GR) - Manufacturer of high-tech polymers. Advantaged cost-curve positioning; favourable supply-demand dynamics; strong FCF generation and margin-valuation disconnect. [Alembic Global Advisors](#)
[Request Info](#)
- **Getlink** (GET FP) - Formerly Groupe Eurotunnel. Traffic increasing; strong pricing potential; new routes to drive hi-speed rail traffic. Continued growth in express freight linked to e-commerce. Atlantia increasing stake. [Insight Investment Research](#) [Request Info](#)
- **Huhtamaki** (HUH1V FH) - Finnish food packaging. Margin and revenue growth unrealistic. Margin expansion only achieved due to support from temporary factors. Weak cash flow also anticipated. [StockViews](#)
[Request Info](#)
- **Salvatore Ferragamo** (SFER IM) - Positive and accelerating LFL's globally (EMEA 0-2%, US/China MSD%) driven by strong SS/2018 Collections, destocking progress, strong promos, and easy comps; most beating plan. [Woozle Research](#)
 - **London Marketing with Mark Pacitti, 18 & 24 July** [Request Meeting](#)

U.S.

- **Avg. performance of ideas initiated/reiterated in 2016/17 exceeds 70%** - Axon Enterprise gained +300%. Five takeovers: Entellus Medical, VCA Antech, Zeltiq Aesthetics, Digital Globe, Mitel. Current favourites include: **Plantronics, Central Garden & Pet.** [GARP Research](#)

[Request Info](#)

Chip start-ups are even further behind. [Inflection Point](#)

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- **US Retailers: Torn between fundamentals and seasonality** - Q2 is always challenging (smallest revenue Q, little full price, limited expense leverage). There are good trends which is positive for BTS. **Gap, Macy's** and **Under Armour** as fall trades. [The Retail Tracker](#)
 - **London Marketing with Mark Friedman, 10-11 July** [Request Meeting](#)
- **New York Times (NYT)** - Mid-terms approaching, expect continued digital sub gains. Digital advertising to improve substantially in H2. Shareholders to benefit from significant cash return? [Huber Research](#)
 - **London Marketing with Craig Huber, 12-18 July** [Request Meeting](#)
- **Starbucks (SBUX)** - Thesis playing out. Aggressive growth in capital spending has created significant issues. Slowing sales trends to continue; identity problem; China issues; food not the answer. Too soon for activist involvement. [Hedgeye](#)
 - **London Marketing with Howard Penney, 18-19 July** [Request Meeting](#)
- **Mohawk (MHK), Beacon Roofing (BECN)** - Raw materials and inflation concerns overblown. Price increases will be successfully passed along. Strong management teams, significant market share and end market visibility longest in years. [Thompson Research Group](#)
 - **London Marketing with Kathryn Thompson & Chris White, 25 July** [Request Meeting](#)

Japan

- **MISUMI (9962)** - Ability to rapidly manufacture, customise and deliver precision machine parts in small lots leaves it ideally positioned to continue the long term expansion of its customers and earnings. [Storm Research](#) [Request Info](#)
- **Nintendo (7974)** - Disappoints at E3 2018. Lack of releases this year and next poses a significant challenge. Upcoming Pokemon titles will not help drive adoption of the platform. Third-Party companies continue to show weak support. [Gossamer Consulting](#) [Request Info](#)

Hong Kong

- **Prada (1913 HK)** - Management's forecast of a return to sales growth unlikely to occur. Suspicious that the ratio of obsolete inventory to finished

- **London Marketing with Rob Medd, 13 July** [Request Meeting](#)

Emerging Markets

- **JD.com** (JD US) - Google's \$550m investment combines their global reach and data analysis with JD's data on Chinese consumer behaviour. Potential to boost JD's autonomous vehicles ambitions in logistics. [RedTech Advisors](#) [Request Info](#)
- **YY Inc.** (YY US) - Live streaming market to grow at 24.6% CAGR over next 5yrs. +50% of M/Cap comprises net cash and investments (incl. stake in Huya - recent successful IPO). 30.8% ROE; 23.5% ROIC. Earnings beat expectations, strong forward guidance. [VIP](#) [Request Info](#)
- **GEM managers favour China** - Underweight positioning accounted for by two stocks (**Alibaba/Tencent**). Underlying picture shows managers actively increasing weights. Consumer Discretionary/Staples favoured. Top overweights: **AIA Group, Sands China**. [Copley Fund Research](#)
 - **London Marketing with Steven Holden, 2-6 July** [Request Meeting](#)

Macro Research

Developed Markets

- **Trump's trade tantrum** - Protectionist threat to cause next financial rout. Bonds will not escape. Negative impact on USD; yen is no-safe haven. Favours Swiss franc and euro. EMs to suffer, especially Turkey, Philippines, Indonesia and India. [Independent Strategy](#) [Request Info](#)
- **Market's focus to shift from fixed income to the USD** - The current weakness seen in EM and commodities isn't idiosyncratic but emblematic of a looming dollar funding crisis. [MI2 Partners](#) [Request Info](#)
- **Eurozone** - Why the EZ's next existential crisis may come from the Core Countries rather than Italy. ECB's concern over the state of its own balance sheet and income statement may force the creditors into revolt. [Andrew Hunt Economics](#) [Request Info](#)
- **RBNZ exceptionally dovish** - Warned back in Q4 and Q1 that their next move could be a cut not a hike, and the RBNZ have just raised the likelihood of this occurring. NZD and NZ yields to fall sharply from here. [Antipodean Capital](#) [Request Info](#)
- **US companies are not 'overstretched'** - Neither on measures of cash flow or leverage. Corporate sector health is back at levels typically

- **Global liquidity** - World economy is out-of-step. US is late-cycle, Europe mid-cycle, Asia early-cycle. Stable USD short-term, strong euro and sterling, but weak yen. [CrossBorder Capital](#) [Request Info](#)
- **Global Macro with a focus on Inflation** - Recent reports: Why the euro will come roaring back; Italy ponders IOU - Inflation on the up; Bank guidance was a monumental mistake. [Economic Perspectives](#)
 - **London Marketing with Peter Warburton, 2 July** [Request Meeting](#)
- **Prospect of an even more conservative US Supreme Court** begets sugar plum dreams of Trump's deregulation agenda reinforced and expanded. A nearer-term dividend could come simply from the president having something new to tweet about specifically, beyond trade. [Capital Alpha Partners](#)
 - **London Marketing with Charles Gabriel & Ian Katz, 2-4 July** [Request Meeting](#)

Emerging Markets

- **Global banks** - Generating alpha utilising proprietary backtested PH score™. Top PH Score™ at Q118: Russia, Poland, South Korea, Turkey, Saudi Arabia, Taiwan, Australia, Mexico. [Creative Portfolios](#) [Request Info](#)
- **No deleveraging in China** - Not only do corporate loans continue to rise, but most growth in corporate debt is with the weakest companies, meaning high growth in 'supportive lending'. [Tabbush Report](#) [Request Info](#)
- **The Greek equities gloom will continue** - Their business cycle equities model, showing +14.8% for the year versus -3.5% for the ASE, has become even more bearish with no recovery until Q119. [AAS Economics](#) [Request Info](#)
- **Russia** - Changes to the pension system (not a proper pension reform) and VAT rate increases (will lead to higher inflation and force CBR to further tighten monetary policy) are negative for long-term growth. [GlobalSource Partners](#) [Request Info](#)
- **PBoC to lower RRR** - Represented a second volley in the escalating economic conflict with the US. Trade war could morph into a currency war; US would be unable to win. Trade risks are likely to weigh further on industrial metals prices. [Prestige Economics](#) [Request Info](#)
- **Chinese biotech ambitions underestimated?** Washington overlooking important areas in their attempt to address strategic IP threats posed by

- **Sub-Saharan African mobile operators** to see reduced margins and more merger activity. Result of increased investment in service capacity as operators seek to boost ARPU, as well as increased regulation around coverage and competition. [Oxford Analytica](#)
 - **London Marketing with Matt Shapiro, 17-19 July** [Request Meeting](#)

Commodities

- **Grain markets** - Suffered from the war of words between the White House and Beijing. Have seen 'bottom extensions' in Soya and Corn. Prices will recover from here. [HED Capital Management](#) [Request Info](#)

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