The Cut - Edition 39

Introducing the very best of Independent Research from the IRF Providers

Company Research

Europe

- **WM Morrison** (MRW LN) - Recent share price rise unwarranted, margin recovery far from guaranteed. Lack of strategic response to competitor's moves, continuing progress of German discounters. *Willis Welby* Request Info
- **Sports Direct** (SPD LN) - Expecting substantial recovery in margins; new strategy of buying large format locations to be highly value accretive. Proprietary analysis shows online offering in a very favourable light, supports premise it can regain lost share. *StockViews* Request Info
- **ASML** (ASML NA) - Will be the sole supplier of next generation semiconductor manufacturing equipment based on EUV technology, which will produce even cheaper, faster and more energy efficient chips. *2Xideas*
  - **London Marketing with Henrik Munk-Nielsen, 17 July** Request Meeting
- **Kingfisher** (KGF LN) - B&Q report 2-3% LFL sales growth in June as better weather drives seasonal ranges; easy YoY weather comps, Homebase gains, and ONE Kingfisher efficiencies cited. *Woozle Research*
  - **London Marketing with Mark Pacitti, 18 & 24 July** Request Meeting

U.S.

- **Autodesk** (ADSK) - Better long term growth drivers and pricing power than the market appreciates. Ahead of peers; subscription model is a game changer, ARPS will grow rapidly. BIM in sweet spot of growth. *Abacus Research* Request Info customer base and 120% dollar-based retention. Concerns: high relative valuation due to strong post-IPO trading, continuing losses and significant competition. Renaissance Capital Request Info

- **Valvoline** (VVV) - Chemicals. 2017 spin-off from Ashland Holdings. Recent share price weakness unwarranted. EV/EBITDA multiple: 10.8x; Good FCF. Might profit from possible new tariffs on imported vehicles. Etalon Investment Research Request Info
- **Walmart & Centene tie up?** - Mentioned previously they could be a good fit. Corporate jet data suggests multiple meetings may have taken place between the two companies. Gordon Haskett Research Advisors Request Info
- **Chart Industries** (GTLS) - LNG equipment and solutions provider. Significant opportunity in China. Cost constraint on shale natural gas to drive import growth. Chinese demand to grow ~60% by 2023. Northcoast Research Request Info
- **Cybersecurity** - Bright spots: cloud security, data visibility, identity management. **Varonis** to exceed expectations as up-selling trend continues. Positive on **Zscaler** since successful IPO, but now needs to reset expectations as 'priced for perfection'. Inflection Point Request Info
- **Star Bulk Carriers** (SBLK) - Will the trade war cast a shadow on earnings momentum? Report covers the common stock and senior unsecured bond. Drewry Maritime Financial Research Request Info
- **Interpublic** (IPG) - Advertising. Acquisition of Acxiom Marketing Solutions looks expensive; revenue declining, operating income flat. Doesn't need to own consumer data; why buy non-core assets? Suspending share buybacks. Huber Research
  - **London Marketing with Craig Huber, 13-18 July** Request Meeting
- **Ralph Lauren**: Will You Ever Learn? **Zara**: Finally a Breakthrough in Conversions. **Nike**: Still Looks as Good as Candy. SW Retail Advisors
  - **London Marketing with Stacey Widlitz, 16 & 23-27 July** Request Meeting
- **Restaurants/Consumer Staples** - Chipotle Mexican Grill, Yum! Brands, Starbucks, Domino's. Kroger, Casey's, United Natural Foods, Hershey. Hedgeye
  - **London Marketing with Howard Penney, 18-19 July** Request Meeting

Canada

and higher consumer credit risk as rising rates pressure highly indebted households; expect material rise to provisions for credit losses. *Veritas Investment Research* Request Info

Emerging Markets

- **CTBC Financial Holding** (2891 TT) - High PH Score™; positive changes regarding profitability, operating efficiency, capitalisation, asset quality. Taiwanese banks low-risk, defensive investments. Sector on the cusp of greater consolidation and deregulatory forces. *Creative Portfolios* Request Info

Macro Research

Developed Markets

- **Hard Brexit** - EU won't go for May's plan. Tory hardliners to push back, likely PM sacking. No Brexit path protects the city's financial passport. A big supply shock is coming, BoE better know what to do! *High Frequency Economics* Request Info
- **Italy: Rising tensions between coalition partners as finance bill's decided** - Expensive election promises and fiscal reality to collide. US trade war concerns and growing tensions with the EU. 10-yr BTPs, target 3.5-4.0%. *Independent Strategy* Request Info
- **Japan: powerful monetary easing to continue** - Prospects of 'exit' receding, the basic BoP is weakening, increasing sensitivity to UIP which points to JPY weakness. USD/JPY target of 117.85. *Redward Associates* Request Info
- **Massive sector rotation forecast for Q3** - From Technology, Financials, Industrials into Defensives. Sticking with Macro trades that were successful in June, China ETF was -8%, EMs -4%, Semis -4%,TBonds up. US small caps have peaked. *Belkin Report* Request Info
- **The risk-reward outlook for risky assets is deteriorating** - Just as US cash is offering an improving return alternative. Bear market not imminent, but it makes sense to scale back exposure to equities and credit. *Minack Advisors* Request Info
- **US 10-year yield is headed lower towards the 2.60% level** - This is negative for US bank stocks, which also exhibit slowing momentum.

Australia to prove safe haven and outperform - Due to currency translation effects and high weightings of energy/mining stocks. ASX 200 at new 10-year high, having broken resistance at 6,150. Strong support at 6,000. *Tempus Investment Research* Request Info

- **A divergence has opened up between the USDJPY and Nikkei/SPX index ratio** - Stretching the relationship to the extremes. Given the mean reversion characteristics of the residual of this relationship, a compelling relative value opportunity now exists. *Cross Asset Macro*
    - **London Marketing with Matthew Guise, 26 July** Request Meeting
- **Construction/Industrial sectors** - US non-residential construction below previous peak, but continues to improve. TRG's Contractor & Surety Survey indicates increasing pipeline of large projects and unusually long visibility. Labour challenges to lengthen the cycle. *Thompson Research Group*
    - **London Marketing with Kathryn Thompson & Chris White, 25 September** Request Meeting

Emerging Markets

- **UW EM equities and EZ banks** - Due to tightening financial conditions and restricted dollar liquidity. Fed and the ECB unwilling to admit there is a problem. Further devaluation of the renminbi could bring a potential flashpoint even closer. *Harlyn Research* Request Info
- **Thai equities face headwinds from capital flight and low oil prices** - Dampening the positives from domestic consumption recovery. Favours consumer, tourism, construction, automobile sectors over energy, telecoms, property, healthcare. *Mcorp Review* Request Info
- **Seven questions triggered by yuan depreciation** - Including: Is it possible for the government to relax deleveraging sooner to avoid a demand collapse? Will devaluation change the fall of treasury yields? How much can the PBoC tolerate? Asset allocation: stocks 40%, bonds 30%, gold 30%. *Horizon Insights* Request Info
- **East African governments increasingly focused on regional energy projects** - Finance has been secured from China, Japan, Russia, Saudi Arabia, Turkey and UAE for various projects. *Oxford Analytica*
    - **London Marketing with Matt Shapiro, 17-19 July** Request Meeting
- **EM assets to benefit as USD weakens again** - Sell-off in Chinese stocks is especially overdone. Trump administration will fail to cut the

- London Marketing with Jawad Mian, 16 September
  Request Meeting

Commodities

- **Oil** - Recent reports include: Who is opening the spigots? When it comes to capacity, spare is rare. Aramco IPO in question, but not OPEC's price hawks. How the Permian is losing its lustre. *Vanda Insights* Request Info
- **Copper: Market is catching up to the bearish setup** - Highlights the chart of copper vs the Chinese 10yr government bond yield. Copper price vs copper stocks relative performance chart also shows a very weak technical picture. *Topdown Charts* Request Info

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