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The Cut - Edition 43

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Company & Sector Research

Europe

- **Orpea** (ORP FP) - Significantly mispriced. Maintaining 5% 'organic' growth will be a challenge. International complexity to weigh on margins, which have benefitted from provision releases. Capital intensity per bed on the rise. Valuation triangulated with opco/propco and DCF.
[StockViews](#) [Request Info](#)
- **GlaxoSmithKline** (GSK LN) - Significant risk to Triumeq. Market is also missing important costs in CoGs and OOI. 13% below consensus on 2022 ViiV sales. [New Street Research Healthcare](#) [Request Info](#)
- **Whitbread** (WTB LN) - Sale of Costa removes uncertainty and provides an excellent entry point. Remaining business valued at 8.9x EV/EBITDA. Two activists onboard. Revaluation and growth story. Previous spin-off ideas: MUSA, VVV. [Etalon Investment Research](#) [IRF Event](#)
- **Atlantia** (ATL IM) - Substantial upside remains despite a reduction in equity valuation for the 88% of ASPI (from €18bn to €17bn) given four potential negative impacts from the Morandi Bridge collapse. [Insight Investment Research](#) [Request Info](#)
- **H&M** (HMB SS) - Q3 update later this month; expecting LFL sales and margins to miss expectations on large drops in foot traffic and average ticket trends. Surplus inventory builds despite heavy promotions. [Woozle Research](#) [IRF Event](#)
- **Conzzeta** (CON SW) - Industrials. Good results and robust order book. Positive market environment in the majority of markets. Shares trade

North America

- **Lockheed Martin (LMT)** - Revenue will accelerate as new business capture takes hold. Lead role in garnering wins on new, '3rd offset' projects within DOD. Double-digit EPS growth through at least 2020. 7% FCF yield. [Alembic Global Advisors](#) [Request Info](#)
- **Crocs (CROX)** - 62x estimated earnings for a company that has not grown for years. Continued store closings, decreasing ASP's. Tax boost, FX gains and buybacks mask bigger issues. [Badger Consultants](#) [Request Info](#)
- **LGI Homes (LGIH)** - Focus on entry-level homes, where current lending standards environment will remain accommodative. Industry leading margins. Expect CAGR of 25+% in closings out to 2020. Attractive valuation relative to larger peers. [Costigan Reports](#) [IRF Event](#)
- **Mohawk Industries (MHK)** - Dominant position in fragmented market. Strong B/S will support future acquisitions. Recent drop in earnings driven by temporary factors. Price increases have always offset inflation, but with a time lag. [Abacus Research](#) [Request Info](#)
- **Honeywell (HON) & DowDuPont (DWD)**: **Spinoffs to watch** - Over 45 global spinoffs scheduled and a third of those due this year, a number of which will create extreme value. [The Edge](#) [Request Info](#)
- **Strong Consumer Environment** - Not just Amazon or retail, but also in apparel and small cap restaurants, among others. Report highlights: **TJX, Target, Nike, Texas Roadhouse**. Turned bullish on the consumer space mid 2017. [RenMac](#) [Request Info](#)

RoW

- **Amorepacific Corp. (090430) & Hankook Cosmetics (126390)** - To benefit as Korean men lead next Asian cosmetics and skincare boom. Both companies have hugely lagged DM competitors. These sectors have become a proxy for social media exposure. [Entext](#) [IRF Event](#)
- **APT Satellite (1045 HK)** - Stable revenue and earnings, a healthy financial position and no significant corporate governance issues. Trades on an EV/EBITDA of ~3x and 0.57x book value. [Reperio Capital](#) [Request Info](#)

- **Prepare for the peak in the US rates cycle** - The signs now point to lower rates from early next year. The Taylor rule, changes in liquidity preference and monetary liquidity all head in the one direction. [AAS Economics](#) [Request Info](#)
- **Bleak Eurozone prospects** - Loss of momentum and negative economic outlook. Despite favourable relative valuations, the ECB's policy course leaves equity investors with little to hope for. [Economic Perspectives](#) [IRF Event](#)
- **Brexit bifurcation in bullish trends** - Re-established post-referendum growth trend pace. Inflation should moderate further. Next hike Feb 19 (depending on EU negotiations). A 'hard' Brexit is the stable end-state equilibrium. [Heteronomics](#) [Request Info](#)
- **American 'Cold Civil War'** - The Left hates the Right. The Right hates the ruling class. The NeverTrumpers hate Trump. The Trumpers hate the NeverTrumpers. The ruling class hates everybody. All wish to inflict as much damage on each other as is possible. [The Political Forum](#) [Request Info](#)
- **Equities: First signs the drop is ending.** [HED Capital Management](#) [Request Info](#)
- **Where-fore-art-though HY?** HY corporate and peripheral government bond yields are not adequately compensating holders for additional risk. Only hold core government bonds (US, AU, NZ) as a portfolio hedge. [Antipodean Capital](#) [Request Info](#)

Emerging Markets

- **Chinese exports may outpace investor expectations** - Generally unaffected by tariff war as firms adapt by using transit countries to avoid additional tax charges. Yuan depreciation trend expected to change when credit growth stabilises/rebounds. [Horizon Insights](#) [Request Info](#)
- **India: Private sector recovery** - 2018/19 to be tough for EM's with weak BoP positions, but India's weakness stems from a long-overdue revival in its domestic CAPEX cycle that has occurred against the background of reduced public sector involvement. [Andrew Hunt Economics](#) [Request Info](#)
- **Relations sour in Malaysia** - Suspicions grow of a rift between PM Mahathir and the man he has promised to give power to. Relations with

- **Turkey: Running out of time** - Unsuccessful search for allies abroad. Damage to corporate B/S growing rapidly. Inflation to increase to ~20%. Medium Term programme will disappoint. Ankara will soon capitulate to US. [GlobalSource Partners](#) [Request Info](#)
- **The Three P's Of Xi: Patience, Persistence & Power** - Watch what China is doing, not how it is doing. China will never abandon MIC2025 in the face of US economic pressure. [High Frequency Economics](#)

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Commodities

- **Permian pipeline bottlenecks will last until 2022** - E&Ps and The Street assume that the Basin will be over piped by the end of next year. The differentials will stay wide in a non-constrained production growth scenario. Numbers need to come down on 2019 Permian production and E&P earnings estimates. [Palissy Advisors](#) [Request Info](#)
- **Blockchain: Commercial real estate** - US trades coal mining for the digital kind. Sites that have infrastructure in place, but are currently idle due to the global shift away from heavily polluting energy generation, present the perfect fit for new technology companies. [Inferential Focus](#)

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For further information please contact us at:

Edward Blad

Edward@independentresearchforum.com

+44 (0)203 405 7120

Bloomberg IB / eblad2@bloomberg.net

[LinkedIn](#)

Alexis@independentresearchforum.com

+44 (0)203 405 7123

Bloomberg IB / avatistas6@bloomberg.net

[LinkedIn](#)

Declan Wooloughan

Declan@independentresearchforum.com

+44 (0)7798 643 589

Bloomberg IB / dwooloughan3@bloomberg.net

[LinkedIn](#)

Jenny Metta

Jenny@independentresearchforum.com

+44 (0)203 405 7125

Bloomberg IB / jmetta2@bloomberg.net

[LinkedIn](#)



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