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## The Cut - Edition 48

### Introducing the very best of Independent Research from the IRF Providers

#### Events

##### IRF Lunch with Andrew Hunt

[\*Andrew Hunt Economics\*](#)

The impact of China's severe credit crunch and likely impact of the Fed's "QT"

**Wednesday 12 December, 12:30pm**

The Lansdowne Club

[Confirm Attendance](#)

[IRF Events Calendar](#)

#### Company & Sector Research

##### Europe

- **Alstom** (ALO FP) - Impressive organic sales growth, strong order book, low debt, expect dividend pay-out to rise. Siemens JV boost, recently signed €730m Ryad metro maintenance contract. TP increased to €75. [Advanced Investment Research](#) [IRF Event](#)
- **AstraZeneca** (AZN LN) - Planned guidance changes will cause confusion and irritation. Poor cashflow generation and uncovered dividend. Roxadustat P3 study key to maintaining share price momentum. [Intrinsic Health](#) [Request Info](#)
- **Ferrovial** (FER SM) - Expects them to sell all of Services, but sees slightly different exit strategies for sub-segments, which would facilitate a special dividend/new investment. SOTP TP €32. [Insight Investment Research](#) [Request Info](#)

- **Rexel** (RXL FP) - Profits under pressure, FCF overstated, debt may become a serious issue especially if revenues fall again. The Street overestimates profitability and cash generation potential. [TT Equity Research](#) [Request Info](#)
- **Siemens Gamesa** (SGRE SM) & **Vestas** (VWS DC) - Shares of the wind turbine manufacturers rallied sharply on a resumption of growth and stability in pricing. Overly pessimistic expectations, strong balance sheets, support further upside. [Willis Welby](#) [Request Info](#)

## North America

- **Energy: US-China tariff war & energy exports; can states drive ESG when federal government won't?** Carbon tax/pricing; Keystone XL, midstream & export infrastructure; PJM Capacity Markets: Will incumbent generators or renewables win? Why the Clean Power Plan will never come back. [Capital Alpha Partners](#) [IRF Event](#)
- **Heavy Materials: Californians vote to reject Prop 6** - Therefore maintaining ~\$5bn in incremental annual transportation funding. Issue has hung over the minds of investors for nearly a year. New funding is secure and helps address \$100bn in construction backlogs. [Thompson Research Group](#) [Request Info](#)
- **Retail: Holiday '18 opportunities - Tiffany & Co:** New products, bold marketing, China worry overdone. **Target:** Momentum, toys and beauty will drive success. **Urban Outfitters:** Strong fashion trends in all brands; recent market sell off provides attractive entry point. [The Retail Tracker](#) [Request Info](#)
- **Arcosa** (ACA) - Spinoff from Trinity Industries. Will benefit from increased infrastructure spending. No debt, net cash \$210m. Key Priorities: grow Construction Products segment; improve Energy Equipment performance; expand transportation products organically. [The Edge](#) [IRF Event](#)
- **Constellation Brands** (STZ) - Positive view re. CEO-elect Bill Newlands. Stake in Canopy Growth will result in them selling wine/spirits divisions to refocus on the premium beer brands and cannabis products. [Management CV](#) [Request Info](#)
- **CSX Corp** (CSX) & **Canadian Pacific Railway** (CP) - Recent corporate jet activity adds to the merger thesis, given the succession needs at CSX, past M&A attempts between the two and activist investor involvement. [Gordon Haskett Research Advisors](#) [Request Info](#)

- **SeaWorld Entertainment (SEAS)** - Concerns re. declining per capita admissions unwarranted; in-park spending continues to rise, attendance across the portfolio up. Dividend to be restored, paving the way for significant returns. Call Initiated at \$15 (Nov 17). [GARP Research](#)  
[Request Info](#)
- **USANA Health Services (USNA)** - Momentum continues to build following strong Q3. Better than expected organic sales growth, raised FY outlook. Debt free, ~\$13 per share of cash/securities. TP \$150. [Lane Research](#)  
[Request Info](#)
- **Zebra Tech (ZBRA)** - Another exceptional quarter. Transportation & Logistics and Manufacturing customers just beginning their transition to the Android operating system. Upside potential to conservative EBITDA guidance. [Northcoast Research](#) [IRF Event](#)

## RoW

- **5G infrastructure capex: Early winners** - Chinese makers of optical chips (**Accelink**, **Zhongji Innolight** as well as **Huawei**) and SD WAN vendors such as **Juniper** and **Cisco**. Telcos domination of wireless connectivity will end as 5G matures. [Entext](#)  
[Request Info](#)
- **China Merchant Port Holdings (144 HK)** - Overreaction to government threats and trade tariffs. Attractive valuation, Drewry's Port Index PE (covering 11 companies) trades at 18.3x vs CMPH's 13.8x; 5.5% divi. TP HKD 24.5. [Drewry Maritime Financial Research](#)  
[Request Info](#)
- **Dongfeng Motor Group (489 HK)** - Despite continued growth, strong profitability and healthy financial position, trades at a P/B ratio of 0.5x. Upside to the SOTP valuation is 196%. [Reperio Capital Research](#)  
[Request Info](#)
- **Don Quijote (7532 JP)** - Tantalising possibility that it will now develop the first true FMCG discount format for Japan modelled on Aldi/Lidl. Name change next year reflects plans to have substantial operations across the Pacific Rim, including the US. [JapanConsuming](#)  
[Request Info](#)

## Macro Research

- **Market sentiment derived predictions in traded markets** - Impressive track record. There is a particular emphasis on Equity and Bond markets

and these charts summarise this work over recent quarters: [US Stock Market Analysis](#) & [US Bond Market Analysis](#). [HED Capital Management](#)

[Request Info](#)

## Developed Markets

- **US PMI to break below 50** - Composite Leading PMI Indicator for the US, which reliably leads the Manufacturing PMI by several months, has declined to levels seen in the months before the 2008 crisis. [AAS Economics](#) [Request Info](#)
- **Fed & Trump** - Personnel changes could haunt Trump. Equities do not dominate Fed policy. Investors should focus on wage inflation. Markets incorrectly believe Fed will blink. Stable inflationary expectations have limited USD appreciation. [DeSaque Macro Research](#) [Request Info](#)
- **UK: Focus on wage data, not Brexit** - Labour market getting tighter. Drop in unemployment rate below 4% will increase risk of more rate hikes. Sterling will rise regardless of Brexit. [GFC Economics](#) [Request Info](#)
- **The Macron Illusion** - Election victory short-lived. Given up trying to convince Berlin re. EZ reform. Waning popularity means he had no choice but to open the purse to get his voting base fired-up for the upcoming EU elections. [Eyes-Only](#) [Request Info](#)
- **Australia may not be the next big short** - Not expecting a recession in 2019, which would be required for short A\$, long rates, short banks, to continue to work. Mining capex bust ending; increased infrastructure spending; residential downturn unlikely to king-hit growth. [Minack Advisors](#) [Request Info](#)
- **Japan: Could a banking problem undercut global liquidity?** - BoJ policy has driven risk-taking as Japan has become the marginal liquidity provider. As policy is normalised expect domestic real estate defaults and capital repatriation. Flighty trust bank portfolio investment has been the main driver of cross-border flow. Parallels to '97 are frightening. [MI2 Partners](#) [Request Info](#)

## Emerging Markets

- **Analysts wrong about China's USD reserves?** - China has lent large amounts of collateralised (commodities/real assets) USDs to EMs. As the Fed tightens, it forces EMs to default on loans, inadvertently allowing

China to take control of assets on the cheap. [FFTT](#) [Request Info](#)

- **China's economy not as intensely weak as many believe** - Corporate borrowing at highest level since 2013. Investment spending accelerating. Hiring continues apace. [China Beige Book](#) [Request Info](#)
- **Globalisation has gone too far** - Sino-US confrontation is rewriting the rules of the global order. Deep integration between the world's largest semi-command economy and the free markets of the developed world has not worked. [Enodo Economics](#) [Request Info](#)
- **Ukrainian uncertainty** - Increased political turmoil; rising tensions in the Azov Sea; IMF funding concerns; economy remains fragile, double digit inflation and sharp current account declines expected. Z-spread on Ukraine 27's to soar to ~800bps? [Emerginomics](#) [Request Info](#)
- **Philippines: PHP has significantly further to decline** - Credit boom; budget deficit widened sharply and been heavily 'monetised' by the banking system. Economy is inflating, external accounts dramatically weakening. [Andrew Hunt Economics](#) [IRF Event](#)
- **Colombia: A new census portrays a very different country** - Results delivered many surprises, most posing severe challenges for future economic and social policies. [GlobalSource Partners](#) [Request Info](#)

## Commodities

- **Crude's freefall sets the stage for another OPEC about-turn** - Restraining production just six months after pledging additional barrels. Expects further downgrades in global oil demand projections. Iran to lose just over 1m b/d of exports. Not the end of OPEC. [Vanda Insights](#) [Request Info](#)
- **Uranium: The ultimate (geopolitical) hedge** - Demand to accelerate, driven by China. Further supply cuts from the world's largest miners. 'Second cold war' could lead to a resurgence in the growth of nuclear based weaponry and naval fleets. [Longview Economics](#) [Request Info](#)

**IRF works with 165 Independent Research Providers and Specialist Data Providers, which cover all the major Asset Classes, Sectors and Regions utilising a variety of methodologies.**

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