



The Cut - Edition 50

Introducing the very best of Independent Research from the IRF Providers

**Season's Greetings**  
IRF looks forward to working with you in 2019  
**Happy New Year!**

### Upcoming Events

#### Group Lunch Presentation

[High Frequency Economics](#)

The latest insights on the global economy and financial markets

**Carl Weinberg, Jim O'Sullivan**

**Monday 21st January, 12:30pm**

[Confirm Attendance](#)

[IRF Events Calendar](#)

### Company & Sector Research

#### Europe

- **Kier** (KIE LN) - Shares fall heavily following a deeply discounted rights issue. Initial analysis (Feb 18 at £10.69) highlighted the fact that adjusted net debt was materially higher than the company reported. [PN Finance](#) [Request Info](#)
- **GlaxoSmithKline** (GSK LN) - Tesaro acquisition: 'Paying \$5bn for past mistakes'. But deal creates more problems than it solves. EPS growth pushed out to 2022; dividend cut likely; new Zejula trials to be delayed. [Intrinsic Health](#) [Request Info](#)
- **FTSE 250 Stocks & Sector Review** - Signs of medium term support in some of the weakest areas of the market e.g. Industrials, Services, House Builders. Adding positions to their Momentum portfolio, including: **Redrow, Derwent London, Savills, Page Group.** [Messels](#) [Request Info](#)

#### North America

- **Apple** (AAPL) - Increasingly concerned about Services growth and profitability, as well as peak Average Selling Prices and the impact this will have to gross margin structure. Analysis includes: Licensing, Google, App Store 'tax' and China. [Adnaan Ahmad Research](#) [IRF Event](#)

- **Cannabis: Aphria** (-46%), **Aurora Cannabis** (-39%), **Canopy Growth**(-26%) - Initiated early Oct, thesis playing out as expected. Latest report focuses on the sector's 'irrational' gross margins. [Veritas Investment Research](#) [Request Info](#)
- **Netflix** (NFLX) - \$100m Friends deal! Are they getting caught up in the legacy model of overpaying for content that will drive fees up in a way that eventually dissatisfies consumers? How many new scripted series could they have produced for \$100m? [Inferential Focus](#) [Request Info](#)
- **Chico's FAS** (CHS) - Classic value story, distressed price for strong retail concept. Shares declined ~32% since Dec 17; 3x EV/EBITDA. Ongoing management changes. Previous ideas: **LTHM**, **ATKR**, **TVPT**, **PLYA**, **APOG**, **UNVR**, **WTB LN**. [Etalon Investment Research](#) [Request Info](#)
- **Electronic Arts** (EA) - FY19 to miss expectations. Weaker than expected demand for Sports, anaemic demand for Battlefield V, company overly bullish re. Anthem. [Gossamer Consulting](#) [Request Info](#)
- **Grubhub** (GRUB) - Primary market research/channel checks conclude: Not losing market share to competitors, but trails in usage and popularity. Current trends represent a significant change from Aug 17 report. [Blueshift Research](#) [Request Info](#)
- **Nordson** (NDSN) - Electronics capital equipment cycle has rolled over and industry growth is now trending materially negative. Other divisions also face significant headwinds in 2019. Expensive relative to peers; EPS 2019: \$5.00 vs. consensus \$6.60; PT \$77. [Research 360°](#) [Request Info](#)
- **Wayfair** (W) - Losses increasing, high/rising customer acquisition costs, flawed model and diseconomies of scale. Fierce competition, SCOTUS sales tax decision will erode an advantage. Earnings quality issues. [Two Rivers Analytics](#) [Request Info](#)
- **PVH Corp** (PVH) - DG Aug 18; ~40% return. Proprietary Data in Europe shows continued overexpansion of the CK brand. N. America: Significant push back to new CK pricing structure resulting in more markdowns than the Street was expecting. 2019: Focusing on the risks for Tommy Hilfiger. [SW Retail Advisors](#) [Request Info](#)

## RoW

- **Japan's 100 most predictable companies** - [Storm Research](#) has launched the Storm Predictability Index, a unique ranking of Japanese stocks based purely on each company's ability to predict its own earnings. Two Storm Portfolio stocks appear in the top 20 (**Don Quijote** & **eGuarantee**). Also available: Japan's 100 least predictable companies, which features several stocks popular with foreign investors. [Request Info](#)
- **TME: China's Tencent Music Entertainment** - Their online music services are cheap by any measure and the penetration of paid users is low. Big opportunity ahead. Key to converting users to paid subscriptions is not cutting prices, but cutting back on free services. [RedTech Advisors](#) [Request Info](#)

## Macro Research

## Developed Markets

- **Australia: Action required to avoid a GFC-style banking & financial crisis** - RBA needs to inject liquidity into the banking system via term repo auctions to get the BBSW-OIS spread down; become more realistic about the state of the economy and acquiesce to a weaker AUD. [Redward Associates](#) [Request Info](#)
- **Germany: Heading towards a recession** - The downturn actually began a year ago. Bund yields have scope to decline even further. Expectations for the first ECB rate hike pushed back to 2021. [High Frequency Economics](#) [IRF Event](#)
- **Populism: Set to wax, not wane** - It is corroding the civic state and will alter for the worse the globalised world order that underpins wealth creation. Report covers: Germany, France, Italy, UK and US, as well as potential investment strategies. [Independent Strategy](#) [Request Info](#)
- **How the Fed manages the US cycle is the key issue for 2019** - History suggests 25% chance they successfully achieve a soft landing. Not convinced US growth will slow soon enough to change the Fed's plans as fast as market pricing implies. [Minack Advisors](#) [IRF Event](#)
- **France's unwelcome rise to prominence** - Appeasement of protests threatens a budgetary lapse much larger than Italy's next year. How long before French OATs suffer a similar market revolt to the one that lifted Italian BTPs 200 basis points higher in the summer? [Economic Perspectives](#) [Request Info](#)
- **FX-hedged UST yields** - As long as they remain negative and the USD is not weakened meaningfully, the only assets you'll want to own are cash and gold. The 'Soros/Druckenmiller-inspired strong USD playbook' tried this year failed, but USD bulls remain in denial about it. [FFTT](#) [Request Info](#)

## Emerging Markets

- **Political Risk Ratings: New report flags negative outlook for 54% of EMs in 2019** - Highlights Turkey, Brazil and South Africa; as well as exploring FM vulnerability to US interest rate rises. [Oxford Analytica](#) [Request Info](#)
- **Indian Exceptionalism** - Global growth is rolling over, but India is accelerating and their growth premium is widening. Low inflation, normalisation in real rates, earnings bottoming out, credit growth has gone from a drag to a support. Favours equities; specifically banks. [Totem Macro](#)
- **China: Government default risks significantly lower in 2019** - Debt repayment pressure peaked in 2018; implicit guarantees on government repayments will continue next year. LGFV bonds preferred. [Horizon Insights](#) [Request Info](#)
- **Turkey: Growth slows sharply in Q3** - Confirms concerns that a sharp contraction in economic activity is now in the making. 2018 growth est. 3.3%; expects a significant negative growth rate next year, in contrast to government's forecast of 2.3% growth. [GlobalSource Partners](#) [Request Info](#)
- **Rare opportunity to invest in EM Equities without changing your risk profile** - Models de-risking rapidly with the exception of EM Equities. High-

quality EMs more attractive than high-quality DMs and high-risk EMs preferred to high-risk DMs. [Harlyn Research](#) [Request Info](#)

## Commodities

- **OPEC+ delivers on cut but struggles to stay in driver's seat** - Saudi Arabia yields ground to Russia; new order around OPEC; moderation is the new mantra; adapting to a world in flux; Qatar's OPexit a non-event for oil. [Vanda Insights](#) [Request Info](#)
- **Shale to add to US woes** - Extremely vulnerable to lower oil prices. Operating costs (excl. Permian) are close to breakeven at \$50 WTI. Lower prices impact CapEx, adding to the headwinds facing the economy. As financing comes due, expect consolidation and mounting losses on prior investments. [MI2 Partners](#) [Request Info](#)