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The Cut - Edition 52

Introducing the very best of Independent Research from the IRF Providers

MiFID - Keep Calm and Carry On

A guest article by Edward Blad for Integrity Research on Independent Research, MiFID and IRF. To read the full article on Integrity's website please [click here](#).

Best Calls in 2018 - *We've taken a look back at the recommendations from our IRPs and put together a list of the best calls. To request a copy of this review, please send us an email by [clicking here](#).*

IRF Events Calendar

Company & Sector Research

Europe

- **BCA Marketplace** (BCA LN) - Original thesis focused on unappreciated capital intensity and corporate governance concerns. Latest report reveals more mix pressure than anticipated on 'share of value' and how new online only competition puts their high fees at risk. TP 110p (-50%) with EBIT forecasts 20% below consensus. [StockViews](#) [Request Info](#)
- **Saint-Gobain** (SGO FP) - Shares imply a collapse in long-term margins to half the forecast level (well below prior trough in 2009). Analysts are not giving credence to the restructuring and divestment programme, which should further reduce fixed asset intensities. [Willis Welby](#) [Request Info](#)
- **Hugo Boss** (BOSS GR) - Sigh of relief following Q4 results, but investors must watch those wholesale delivery shifts. Increased brand competition including Calvin Klein. Long term goals remain unrealistic. [SW Retail Advisors](#) [Request Info](#)

- **Airlines** - Successfully highlighted issues within the sector last year, but now believes **Ryanair** 'looks interesting'. In prime position to improve market share as excess capacity is squeezed out of the market. [WYT](#)
[Request Info](#)
- **EuroStoxx Industrial Goods & Services (IGS) is ridiculously overextended** - Strong downward long-term model forecast. One of several ways highlighted that provides exposure to 'Chinese contagion / economic slump' theme. Stocks mentioned include: **Siemens, Maersk, Deutsche Post** and **ABB**. [Belkin Report](#) [Request Info](#)
- **Autos** - Technological innovation the most under-appreciated factor for weak sales. Problem is both supply and demand; threatens to wreck the industry with several economies that invested heavily in now-outdated technologies particularly exposed. [Independent Strategy](#) [Request Info](#)

North America

- **The internet crash** - 5G is no done deal and we are heading towards a series of infrastructural issues that could cause a crisis of confidence in the internet. Research covers tech/patches/cybersecurity. Highlights: Google Chronicle and three 'bottleneck engineering' companies. [Signum Intel](#) [IRF Event](#)
- **MSCI (MSCI)** - High quality, fast growing, with long-term secular trends providing tailwinds. Positive view on US stock market (and economy); company well paced to benefit. Should trade at a high teens EBITDA multiple or mid-20's FCF multiple. [Huber Research](#) [IRF Event](#)
- **Snap (SNAP)** - Initiated Mar 17 (\$17); Instagram competition, governance issue, limited android use, cash flow burn and minor third world expansion possibilities. CFO's departure highlights continuing issues, adds to a long line of senior level departures. TP lowered to \$5. [Summit Insights Group](#) [IRF Event](#)
- **Starbucks (SBUX)** - Attractive valuation vs. several transactions that have taken place in the industry. Expected to buy back \$13bn worth of shares in the next 2yrs. US growth concerns overdone. Significant opportunity remains in Chinese market. TP \$98. [Boyar Research](#) [IRF Event](#)
- **Iridium Communications (IRDM)** - Initiated May 18; share price already up c.75%. With the satellite upgrade out of the way, re-rating set to continue as CAPEX dollars can now be used to pay down debt; FCF to exceed \$300m in 2020. [BWS Financial](#) [Request Info](#)
- **Natus Medical (BABY)** - Rapidly growing revenues, operating cash flow

and EPS. Proven ability to acquire and integrate complementary businesses. High expectations re. recent commercial launch of Otoscan.

TP \$80. [Costigan Reports](#) [Request Info](#)

- **Canadian Banks** - Deteriorating macroeconomic conditions, softening global growth, lower loan volumes and rising domestic credit risk. Negative view on all Canadian banks except **Bank of Montreal**. [Veritas Investment Research](#) [Request Info](#)
- **Industrial & Construction stocks** - In 2018 performed as if the US were already in a recession. In 2019 prefers US centric focused names due to positive end markets, easing interest rates, potential trade war resolution and less inflationary pressure. [Thompson Research Group](#) [Request Info](#)
- **Tech rout relative to the safety of USTs at extreme** - Highlights the spread between flows for risk/safe asset ETFs along with the 3M spread between the S&P 500 Tech index and US 10-yr. Amazing divergence in performance (-30.3%). Past spreads in excess of two standard deviations have been followed by rebounds in tech equities. [Arbor Research](#)

[IRF Event](#)

RoW

- **Johnson Electric Holdings** (179 HK) - Oversold due to concerns over trade wars and slowing automobile sales within China. Industry leader, strong financial position; EV/EBITDA of 3.7x, PB of 0.85x, dividend 2.9%. 170% upside. [Reperio Capital](#) [Request Info](#)
- **Australian Tech** - Analysts overly bearish re. earnings forecasts. Sector has generated impressive returns vs the benchmark and the global IT sector. Preferred companies: **WiseTech Global** and **TechnologyOne**. [Macro Strategy Advisors](#) [Request Info](#)

Macro Research

Developed Markets

- **Fade the rally** - Last September, based on lagged monetary dynamics, advised downweighting equities, upweighting bonds, choosing defensive equity sectors and rolling out of high yield to higher quality corporate bonds. These monetary fundamentals remain. Stay defensive. [AAS Economics](#) [Request Info](#)
- **DM fixed income - Italy**: Governmental crisis fading, yet bond yields still

bear a large risk premium. Spread to Germany expected to close. Other ideas include: **Australian government bonds** to prosper and **Yen:USD** primed for further appreciation. [Economic Perspectives](#) [Request Info](#)

- **UK: Strong case for zero BoE rate increases in 2019** - Probability of remaining in the EU has increased significantly. Subdued inflationary pressures. Money is already 'too tight' and is causing economic momentum to slow. Closed GBP short, moved long (17/1). [Longview Economics](#) [Request Info](#)
- **From PE to EPS risk** - Declining earnings is the biggest threat to equities. However, history suggests that while EPS downgrades are likely, significant EPS declines require recession. Recession is a risk, but more likely not until 2020. [Minack Advisors](#) [Request Info](#)
- **Sweden: New government sparks political realignment** - Fragile union to deter investors. Spring budget to ignite the first tensions. UK departure and the perceived strengthening of the German-Franco alliance may increase support for Sweden's own EU exit. [Oxford Analytica](#) [Request Info](#)
- **New position in equities, commodities and the USD** - Equities include switching from short to long both US and Brazil. Remains UW Asia Pacific region (China risk). This Diversified Portfolio consists of ~60 investments with a holding period of 6-12 months, targets a Sharpe Ratio of 1 and annual returns of 10%. [ThirdYear Capital](#) [Request Info](#)

Emerging Markets

- **EM Equities** - Cheap across a range of valuation indicators. The macro/sentiment outlook is (contrarian) bullish. **EM FX**: On the verge of a breakout; increases bullish conviction. **USD**: Time to abandon bullish view. [Topdown Charts](#) [Request Info](#)
- **Hungary: Impressive performance, any slowdown will be moderate** - Expects domestic government policies to become more expansionary again in 2021. Credit agencies to move the country up to BBB/Baa2. [GlobalSource Partners](#) [Request Info](#)
- **Indonesia: Beta play on global fixed income sentiment** - Without a marked improvement in sentiment towards EM fixed income, their BoP will remain weak; IDR under pressure and earnings/economic growth in third party currency terms will remain notably weaker than the seemingly positive domestic growth rates. [Andrew Hunt Economics](#) [Request Info](#)
- **Trade & Asia** - Why a US-China deal is not good news for Asia. **India**: Not all is well as Modi's first term draws to a close. **Vietnam**: Rousing growth an opening to fix structural weaknesses. [Centennial Asia Advisors](#)

[Request Info](#)

- **India's tax reform has failed to boost travel** - Intended to promote consolidation in travel, the GST instead has raised the costs of doing business for an industry that remains very fragmented. [J Capital Research](#) [Request Info](#)
- **China/US** - Will China and the US save the world economy in 2019? Expect selective fiscal policy easing in China. China's consumers exhibit changing preferences. No repeat of the Shanghai Accord. No repeat of 2009 and 2015-6 credit binges. [DeSaque Macro Research](#) [Request Info](#)

Commodities

- **Permian pipeline capacity issues will last until 2022** - Permian E&Ps will have to drop rigs and slow down completions. Lower 48 consensus oil production expectations and equity earnings need to come further down. Crude quality could worsen the situation. [Palissy Advisors](#) [IRF Event](#)
- **Palladium soars above \$1,400: It will not last** - Usage will collapse in ~5yrs time. Big auto companies are configuring new models on Platinum-based catalyst systems and dumping out Palladium systems as fast as possible. [Commodity Intelligence](#) [Request Info](#)
- **Industrial metals prices too high** - IMF's global growth forecasts revised down; predicts weak Chinese Caixin and Eurozone Manufacturing PMIs next week. Aluminum, copper and other metals face downside risk without a near-term US-Chinese trade detente, especially against a backdrop of slowing Eurozone growth. [Prestige Economics](#) [Request Info](#)

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