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**The Cut - Edition 53**

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

## **Events**

**IRF Lunch with Michael Orme and Eoin Gleeson**

***[Signum Intel](#)***

Technology Thematics - Machine Learning, AI, Neuromorphic Chips, and more

**Friday 1 March**

The Lansdowne Club

[Confirm Attendance](#)

[IRF Events Calendar](#)

## **Company & Sector Research**

### **Europe**

- **Eurofins Scientific** (ERF FP) - Protects structural profit decline with acquisitions; gross debt 45x 2018E FCF. Despite these acquisitions, cash flows are deteriorating. Related party rent expenses exceeding the value of property underlines suspicion of illegitimate transactions. [TT Equity Research](#) [Request Info](#)
- **£500m AIM darling short** - Organic growth is much lower than appears, while an increase in deferred income of acquisitions could be being used to flatter future growth. Cost cutting to satisfy margin targets has left the business underinvested and vulnerable to increased competition. [StockViews](#) [Request Info](#)
- **Global CDMO/CRO Stocks** - Levered play on view that the Pharma & Biotech sector has entered an R&D SuperCycle. Forecast EPS from their coverage universe to grow by 38% CAGR 2019-23. **Evotec**, **Lonza** and **Wuxi** are highlighted. [Intrinsic Health](#) [Request Info](#)

## North America

- **Qualcomm** (QCOM) - Despite many investors arguing the stock looks cheap at ~\$50, negative view remains; continues to see further downside potential to both the License revenues as well as chipset margins. Doesn't believe trends such as 5G, foldable devices, AR etc will drive volumes again. [Adnaan Ahmad Research](#) [Request Info](#)
- **Cigna** (CI) - Will benefit from deal synergies (ESRX), potential to grow at mid-teen rates for next three years, trades at a big discount to purer-play insurers. Other coverage: **LogMeIn** (2019 Takeout candidate); **Juniper Networks** (vulnerable to opportunistic bid); **Canadian Pacific, CSX, Union Pacific** (Rail consolidation). [Gordon Haskett Research Advisors](#) [IRF Event](#)
- **SNC-Lavalin** (SNC CN) - Cuts guidance; shares down over 30% since initiation. Correctly highlighted the risks associated with fixed-price contracts. Concerns remain and company is understating its exposure by classifying certain fixed-price contracts as reimbursable contracts. [Gradient Analytics](#) [Request Info](#)
- **Boeing** (BA) - Beats expectations. Raising 2019 core EPS estimate to \$20.07, on higher projected BCA deliveries and margin rate; 2020 forecast increased to \$23.41. 12 month TP now \$458. [Alembic Global Advisors](#) [Request Info](#)
- **Fleetcor** (FLT) - Capital light model means \$1bn+ p.a. available for acquisitions. Lower oil prices and mis-execution over the last two years provides an opportunity for longer term investors. TP \$273. [Abacus Research](#) [Request Info](#)
- **Consumer Discretionary: Bleak outlook** - US consumer sentiment fell by 1.5 standard deviation in both December and January. Doesn't bode well for the likes of **Starbucks, Nike** and **Amazon**. [IR&M](#) [Request Info](#)
- **Retail: Q4 leaders - Burlington:** Will exceed the modest 2-3% guidance. **Costco:** Best Holiday performance in years, outstanding results in January. Q4 Laggards - **Abercrombie & Fitch, Dollar Tree, Kohl's** and **Macy's**. [Customer Growth Partners](#) [Request Info](#)
- **REITs: Health Care, Infrastructure & Self-Storage** - Internal and external trends have been stronger than the market for a while; continue to see potential for excess returns. View that yields have peaked for this cycle adds to their thesis. [RenMac](#) [Request Info](#)
- **Canadian Banks** - IFRS 9 introduces a new pattern for loss recognition; expect rising credit risk, particularly in unsecured lending. **Royal Bank of Canada** and **Toronto-Dominion Bank** highlighted. Analysis was included

in their recent Quarterly Webinar. [Click here](#) for additional themes and investment ideas. [Veritas Investment Research](#) [Request Info](#)

- **Activist threat seen pushing mega-cap laggards into spinoff mode - AT&T** to seek a three-way breakup? Successful animal health spinoffs at **Pfizer** and **Zoetis** make a similar move “the next logical step” for **Merck**. **Oracle** also highlighted. [The Edge](#) [Request Info](#)

## RoW

- **Japan: [Winners & Losers Weekly Video](#)** - Themes include: 5G, Digital Cameras and Vloggers. **Anritsu**, **Inter Action**, **UUUM** and **Daiwabo** are all covered. [Storm Research](#) [IRF Event](#)
- **Baozun** - Faces challenges of disintermediation by customers who are increasingly price sensitive when renewing contracts with service providers. Expects significant deceleration in Q4 18 GMV (35% YoY; Q3: 50%). TP \$20 based on 20x P/2019E. [JL Warren Capital](#) [Request Info](#)
- **Asia Commercial Bank (ACB VN)** - The bank stands out in terms of positive changes regarding profitability, operating efficiency, asset quality, capital adequacy and liquidity. Quintile 1 PH Score™. [Creative Portfolios](#) [Request Info](#)
- **Japan: Global Auto Sales** - Outlook for 2019. **CyberAgent** - Disappointing Q1 leads to a sharp downward revision for the full year. **Murata** - Concerns despite a record December Qtr. **IHI Corp** - Good prospects in FY19. **Nintendo** - A different type of 5G opportunity. [Pelham Smithers Associates](#) [Request Info](#)

## Macro Research

### Developed Markets

- **Why QE is coming back (why it never really went away)** - Modern financial systems cannot operate without QE. Expect a renewed B/S expansion. QE4 to focus on infrastructure spending, not asset markets. [CrossBorder Capital](#) [Request Info](#)
- **The benefits of Japanese deflation** - The Fed’s pragmatism combined with the adoption of 5G in Japan will see the BoJ miss its 2% target by a wide margin, but structural deflation is driving new business opportunities. [GFC Economics](#) [Request Info](#)
- **Global PMIs heading lower** - Consistent with AASE's forecasts and despite recent upticks and dovish Fed comments, PMIs for the US,

Japan, Eurozone, China, Australia and UK continue their downtrends. AASE's monetary modelling predicts more downside ahead (see [chart](#)).

[AAS Economics](#) [IRF Event](#)

- **Germany: Was Q4 weakness really just down to special factors?**
  - Current slowdown appears to be a "genuine recession" in the industrial complex and although the pharma sector may bounce back, sees no fundamental reason to expect a significant rebound in the economic data.

[Andrew Hunt Economics](#) [Request Info](#)
- **FBI effectively ends globalisation, US Treasury admits it has a funding problem and the Fed blinks** - This is terrible for risk, cet par. The "US Trilemma" will become even more pressing. The timeline to when the Fed will have to begin growing their B/S again just shortened notably. [FFTT](#) [Request Info](#)
- **Global lending standards:** Potential bear market warning indicator starting to flicker. **US HY credit:** On a knife's edge as rate hike risks vs recession risks square-off. **European HY Credit:** Given risks and relative value, prefers equities. **Australian Credit:** The housing slowdown and a toxic policy mix present downside risk. [Topdown Charts](#) [Request Info](#)

## Emerging Markets

- **China: Much weaker economy than publicly available data suggests**
  - The "new" economy (retail & services) saw particular weakness. Slowdown is not the result of credit starvation; credit access is ample, yet firms are increasingly losing their appetite to invest, hire and expand.

[China Beige Book](#) [Request Info](#)
- **EM debt** - Thesis playing out as shifts in Fed rate expectations and oil prices have favoured Latin American EMs over their Asian Pacific peers. The area has been an economic growth stalwart as the rest of the world stumbles. **Fed's next move will be a cut** ([Bloomberg interview](#)). [Arbor Research](#) [Request Info](#)
- **Don't blame China!** - Business leaders and policymakers wrong to blame China for their own shortcomings. Chinese growth slowdown has been barely noticeable as the country continues to push up world trade rather than drag it down. [High Frequency Economics](#) [Request Info](#)
- **Nigeria: Anticipating further political instability and violence** - Assets, including sovereign debt, to underperform in the coming months. **Turkey: Renewed political tension with US** - Further negative surprises for Lira and Govt. bonds. [Emerginomics](#) [Request Info](#)
- **Russia: Large revision in construction raises serious questions**

**about data quality** - Unconvincing explanation by Rosstat and MED. Proprietary model estimates Q4 GDP growth +0.3% Y/Y and +0.7% for whole of 2018. [GlobalSource Partners](#) [Request Info](#)

## Commodities

- **Oil: Demand growth is underestimated** - Due to global macro concerns and misunderstanding of its fundamental drivers. Forecasts 1.52mbd of growth (vs. consensus <1.2mbd). [Palissy Advisors](#) [Request Info](#)
- **Gold: Early stealth bull market** - Central banks accumulating gold, weak USD forecast and Fed will soon be cutting, not raising rates. Bi-weekly global gold and silver stock report, offers market insights and specific stock recommendations. Their equal-weight London-listed gold stock index was +14% (Jan 19). [Belkin Report](#) [Request Info](#)

**IRF works with 170 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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