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The Cut - Edition 54

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Technology Thematics - Machine Learning, AI, Neuromorphic Chips.

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Friday 1 March

The Lansdowne Club

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Company & Sector Research

- **Accounting Quality Insights: Examines the long-term capital market consequences of financial restatements** - Opportunity to generate positive alpha. Report identifies positive abnormal returns following the resolution of the restatement process and filing of the restated financial statements. [Audit Analytics](#) [Request Info](#)

Europe

- **APG SGA (APGN SW)** - Clearly overvalued; expects the dividend to be cut and continued pressure on gross margin. No strategic options for the further development of APG and the competitive environment has intensified further. PT reduced to CHF 280. [Research Partners](#) [Request Info](#)
- **ASML (ASML NA)** - The additional commitment by customers to EUV lithography confirms significant growth prospects. The technology is only

in its infancy, yet is already increasing ASML's share of industry capex, allowing them to grow despite the current cyclical weakness. [2Xideas](#)

[Request Info](#)

- **Ferrari** (RACE IM) - CEO Camilleri's timely stock purchase bolsters the bulls. Margin expansion will create further upside opportunity. Commences €1.5bn share buyback program. Substantial brand power; tops the rankings for world's strongest brand once again. [The Edge](#)

[Request Info](#)

- **Inditex** (ITX SM) - Concerns regarding Zara's product, competition and the biggest elephant in the room, the shift to online. Conversion rate worries continue to grow. [SW Retail Advisors](#) [IRF Event](#)
- **Sartorius Stedim Biotech** (DIM FP) - Raises price target on higher margin expectations and better than expected underlying sales guidance. Strong structural growth trends, US investments are paying off and M&A could be imminent. Initiated Jan 19. [Intrinsic Health](#) [Request Info](#)
- **Subsea7** (SUBC NO) - Earnings miss anticipated in FY20. Highlights a growing construction asset, the need for greater provisioning, ongoing price pressure and limited cost cutting ability. Gross margins are structurally under pressure. Corporate governance concerns around transactions with **Siem Industries**. [StockViews](#) [Request Info](#)

North America

- **JP Morgan's blockchain payment revolution** - The notion of what constitutes 'value transfer' among consumers is evolving fast and new technology threatens to disintermediate incumbent gatekeepers. Comprehensive analysis of the 'JPM coin' as well as 'Blockchain as a Service' being launched by the web giants. [Entext](#) [Request Info](#)
- **The (over) hype of game streaming** - Will not add meaningful upside to earnings for several years. Examines the opportunities/issues facing the industry. Who can build the 'Netflix of video games'? **Microsoft, Google, Amazon, EA and Sony** are covered. [Gossamer Consulting](#) [Request Info](#)
- **Costco** (COST) - Meets with management/previews Q2 results. No issues with core gross margins and SG&A; renewal rates will be strong and prices on select items (e.g. Fresh) are increasing. However, expects shares to fall on weak February sales and as it becomes clear the special cash dividend won't happen until December. [Mosaic Research](#) [Request Info](#)
- **Graphic Packaging Holding Company** (GPK) - M&A activity? Eminence Capital and Canyon Capital Advisors have disclosed sizable positions in

both GPK and **Berry Global Group**. Shares -24% since Jan 2018 high; 7.5x EV/EBITDA. Previous ideas: LTHM, ATKR, TVPT, PLYA, APOG, UNVR, CHS, WTB LN. [Etalon Investment Research](#) [Request Info](#)

- **Inogen** (INGN) - Growth is slowing, management is overstating its TAM; low barriers to entry, increasing competition and declining margins. Sales prices will continue to fall, yet still trades at 48x forward EBITDA and 66x 2019 PE. [Two Rivers Analytics](#) [Request Info](#)
- **Netflix** (NFLX) - New CFO needs temperance. Report examines Spencer Neumann's credentials and raises concerns about incentive alignments for the management team. [Management CV](#) [Request Info](#)
- **Qualcomm** (QCOM) - Positive risk/reward situation given under-valued licensing business, potential settlement with **Apple** and significant 5G product cycle for its chip unit. Upcoming MWC event will prove beneficial for the company too. PT \$82.5. [Arete Research](#) [Request Info](#)
- **SolarWinds** (SWI) - Hybrid IT network management software. Unique self-service model offers lower prices with superior margins. No.1 provider in \$8.3bn market. Concerns: Established competitors (e.g. **IBM**). Highly leveraged. Expansion plans could weigh on margins. [Renaissance Capital](#) [Request Info](#)

RoW

- **Redington Group** (REDI IN) - Technology distribution company. Temporary issues recently impacted growth and profitability, but these issues will normalise in H2 of FY19. Trades on an EV/EBITDA of 5.2x and offers a 3.7% dividend yield. PT INR226 (+200% upside). [Reperio Capital](#) [Request Info](#)
- **Tencent** - 'Opposites attract'. Intriguing \$150m investment in **Reddit**. A China version (i.e. heavily toned-down) of Reddit would prove popular and would be consistent with the company's recent history re. Snapchat. [RedTech Advisors](#) [Request Info](#)
- **Chinese property bonds** - 2019 is the peak year for bond maturity; bonds in the "B" or lower pose increasing downside risk on rising default. This will be the year that good credit selections will pay off. [Bondcritic](#) [Request Info](#)

Macro Research

Developed Markets

- **Australia: Recession 2019/20** - Strong evidence that bubble has burst/is bursting. Expects RBA to cut rates to zero (and potentially use other policies, e.g. QE). AUD to retest its all-time low from 2001? [Longview Economics](#) [Request Info](#)
- **Rest in peace corporate capitalism** - Millennials are about to become the dominant voters. Mainstream politics is seeing both the left and right changing tack, which will significantly impact tech, anti-trust laws, pharma, buybacks, taxes and fiscal spending. [MI2 Partners](#) [Request Info](#)
- **Japan: Implications of raising national sales tax** - Despite the Government taking steps to cushion the blow of the Oct 19 hike, investors should expect increased economic volatility. Highly-likely that Q2 and Q3 will be strong, before weakening sharply in Q4. [Suttle Economics](#) [Request Info](#)
- **Italy: The weak link in the global financial system** - Combination of a deteriorating growth outlook as country enters 'early recession' and rising yields define the end of favourable reflationary conditions and lead to acute BOP risk. No policy response in sight. [ThirdYear Capital](#) [Request Info](#)
- **2019 is about a soft-landing in China, strong US growth and vitriolic EU politics** - USD to strengthen vs EUR, GBP and JPY but weaken against EMFX. [ABP Invest](#) [Request Info](#)
- **Fixed Income - TLT (20-Yr T-Bond ETF)** picking up following recent pullback to channel support; target of 123.50 at the MFU-3 level. **10-Yr T-Note Yield** remains in a weak position; a close below 2.62% will open the downside to 2.487%. [Cerundolo Investment Research](#) [Request Info](#)
- **Capital Preservation: Favours Gold and Government bonds** - Gold ranked 'Strongest' in Sterling and Euro models and 'Strong' in USD, Yen and CAD models. Highest ranked equities: India and US. Growth sensitive equity markets, Industrial Metals and Commodities are all 'Weakest' ranked. [The ECU Group](#) [Request Info](#)

Emerging Markets

- **China: Is in a Japan-style credit bust and growth deceleration** - Report finds uncannily similar situation between problems facing Japan in the 80's/90's and China today. Chinese assets are a value trap and will drag down global growth. [Totem Macro](#) [IRF Event](#)
- **Dissecting Chinese credit stimulus** - The USD remains key to China's outlook. In a strong-Dollar environment accelerating credit growth will only serve to fill the cash-flow deficit left by decelerating nominal growth. There will be no re-play of 2016-17. China remains a drag on global growth this

year. [Macrolens](#) [IRF Event](#)

- **Did something stir in EM capital flows?** - EM (excl. China) enjoyed a bumper January; \$58bn of net cross-border financial inflows, the first positive numbers since early 2017. Bodes well given how geographically widespread these inflows have been: \$21bn Asia (mainly Korea / Thailand), India \$11bn, Eastern Europe \$7bn. [CrossBorder Capital](#) [IRF Event](#)
- **Uzbekistan: Potential in new benchmark bonds** - Given the country's strong sovereign B/S and the recent policy reform. However, investors need to monitor risks and watch out for signs of the build-up of persistent imbalances that could lead to future crises. [Emerginomics](#) [Request Info](#)
- **Malaysia: Economy to power ahead** - As it falls back on supply-side improvements from the trade diversion and production relocation alongside robust domestic demand. The Ringgit will make up for lost ground in 2019. [Centennial Asia Advisors](#) [Request Info](#)
- **China: To import more Indian copy drugs** - Will depress the Chinese companies that have counted on sustainable margins. **Double digit infertility rate** - highlights growth potential for medical treatment, but also points to serious revaluation of Chinese consumers and overall growth. [Sumberg Advisors](#) [IRF Event](#)
- **West's split response to Huawei 'threat' is positive for Chinese equities** - Uncomfortable truth for US is that China has built an unassailable lead in 5G and now their attempt to ban its 5G service is crumbling. [GFC Economics](#) [Request Info](#)

Commodities

- **Long Natural Gas** - Price holds above the 2018 low at \$2.53 per MMBtu. The pace of price declines is slowing as buyers position ahead of forecasts for lower-than-normal temperatures across much of the US over the next two weeks. This should result in greater heating demand. [Dantes Outlook](#) [Request Info](#)

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