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The Cut - Edition 55

Introducing the very best of Independent Research from the IRF Providers

Events

IRF Presentation with Michael Howell

[CrossBorder Capital](#)

Why QE4 Will Happen and How Global Liquidity Will Drive Gold and
Emerging Markets Higher and the Dollar Lower

Tuesday 26 March

The Lansdowne Club

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[IRF Events Calendar](#)

Company & Sector Research

Europe

- **Adidas** (ADS GR) - Concerns grow in run up to results. Disinterest from customers sees EU LFL sales fall. US LFL sales +10%, but driven by heavy promotions. Drastic changes to new product styles required to compete with **Nike**. [Woozle Research](#) [Request Info](#)
- **Rentokil** (RTO LN) - Acquisition led growth, margins peaking, industry and strategic risks are being underestimated. Management are incentivised to grow at all costs despite mounting risks associated with

over-expansion. Intrinsic value 230p (~35% downside).

[StockViews](#) [Request Info](#)

- **Spectris** (SXS LN) - Strategic review being underestimated. In assuming continuing margin erosion, investors run the risk of missing this story as it unfolds and ignoring the potential for it to become a bid target. [Willis Welby](#) [Request Info](#)
- **Logitech** (LOGN SW) - Fears of exposure to gaming overblown. Gaming's net sales growth will still be above 17% by 2020/21E. Rapid growth predicted in Video Collaboration and following a recent acquisition Audio & Wearables may well grow faster than forecast. TP CHF 55.00. [Research Partners](#) [Request Info](#)

North America

- **Canadian Telecoms: Beware of Non-GAAP adjustments - Rogers** new definition boosts FCF by 20%. Changes to KPIs obscuring weakening fundamentals. **BCE** also highlighted. Recent report, 'Where is ARPU headed?' shows sector is facing significant headwinds. [Veritas Investment Research](#) [Request Info](#)
- **Avon Products** (AVP) - EPS to grow from \$0.10 in 2019 to \$0.20 in 2020. Anticipating the beginning of the unleashing of substantial operating and financial leverage coming from management's recent growth and cost realignment initiatives. Initiated at \$2.00 (Aug 18), now at \$2.75; TP increased to \$3.85. [Lane Research](#) [Request Info](#)
- **Kraft-Heinz** (KHC): **Analysis of SEC investigation** - Mega-impairment was non-routine and event driven. Their report was also highlighted by *MarketWatch*; [click here](#) for the article. [Audit Analytics](#) [Request Info](#)
- **Bristol Myers** (BMY) & **Celgene** (CELG) - Do not underestimate the significance of Wellington's move to block BMY's attempted acquisition. Pivotal moment in activism and Corporate America. Expects BMY will

have to improve their offer. [Gordon Haskett Research Advisors](#) IRF Event

- **Novocure** (NVCR) - Continues to see significant upside; 1yr PT \$80 & 3yr \$300. Advancing phase 3 pipeline; improving cash flow, reduced cash burn and increasing acceptance of Optune as a complementary novel therapy. Initiated at \$19.90. [Costigan Reports](#) Request Info
- **Payments industry** - Targetting businesses that meet the 4M (Macro, Market, Moat, Management) investment criteria. Favours **Worldpay** and **Adyen** and has serious concerns regarding **Wirecard**. Other companies analysed include **Square** and **PayPal**. 60-page report (written Dec 18). [2Xideas](#) IRF Event
- **Dentsply** (XRAY), **Henry Schein** (HSIC), **Patterson Companies** (PDCO) - Increasingly cautious re. consumable growth rates for the industry following meetings with both public and privately-held dental companies at the Chicago Midwinter Dental meetings recently. [Northcoast Research](#) IRF Event
- **Lowe's** (LOW) - Enters the spring quarter with a new team at the helm and real momentum. Longer term, may be losing less market share to **Home Depot**, but faces real threat from **Amazon** and **Wayfair**. Must step up its subpar online performance. [Customer Growth Partners](#) IRF Event
- **Ulta Beauty** (ULTA) - Well positioned to fend off **Amazon**. Speed to market, innovative brands, trendy influencers, reward program and success as a one-stop beauty destination. The two companies will battle over exclusive partnerships going forward. [Blueshift Research](#) Request Info

RoW

- **Japan: Global EUV opportunity set as 7nm goes mainstream** - Identifies four companies (three Japanese and one US) to follow **ASML**

in benefiting from their breakthroughs. Photo mask writer market - Multi-beam solutions, **NuFlare Technology** in life or death battle with **Jeol**.

[Pelham Smithers Associates](#) [Request Info](#)

- **Baidu** - “Sandwiched” between scale players and niche challengers. Core business PE of ~13x may look cheap, but the “E” has further downside given the structural pressures the company is facing, not to mention negative view on **iQiyi**. [Adnaan Ahmad Research](#) [Request Info](#)
- **China: The A-Share revolution** - Examines the investment landscape among 180 global EM funds, ahead of further planned increases in benchmark weight this year. A-Shares now the largest country overweight. Consumer Staples the beneficiary of recent inflows and Industrials ownership is at all-time highs. [Copley Fund Research](#) [Request Info](#)

Macro Research

Developed Markets

- **Assessing Euro area recession risks** - Germany to lead a regional rebound, helped by fiscal easing. ECB focused on trying to avoid a damaging negative feedback loop developing between slower growth and more cautious banks. A new round of TLTROs is their best (and only) tool to deal with this situation. (EDIT Announced yesterday!) [Suttle Economics](#) [IRF Event](#)
- **US Breakevens vs Eurodollars** - The narrative implied by US TIPS, which have rallied sharply and look rich to gasoline and oil prices, appears to conflict with a Eurodollar strip that is inverted in 2020. Can the narratives implied by the pricing of these instruments co-exist? [Cross Asset Macro](#) [IRF Event](#)

- **Australia: Expects three rates cuts in 2019** - Strongly disagrees with the Reserve Bank's fixation on the labour market and their broader assessment of the economic outlook. Elections in May will see a centre-left Government; significant policy changes to occur especially around negative gearing in property. [Redward Associates](#) [Request Info](#)
- **UK: A state-dependent break clause should allow parliament to approve Brexit** - Otherwise, a short delay might ultimately block Brexit, but no deal is the default. Probabilities of a deal, no deal and no Brexit are 55:25:20. [Heteronomics](#) [Request Info](#)
- **US: Government spending tops a list of policy fears** - Examined forty different policy related topics. Anxiety re. government spending/debt is rising at sharpest pace in 5 years. Intellectual property and immigration policy also saw significant increases in search interest. [Arbor Research](#) [Request Info](#)
- **Demographics: The future is now** - We shall soon be facing a post-growth world. This will have huge implications for monetary policy, existing debt burdens and the repricing of financial assets, especially equity instruments and residential property. [Independent Strategy](#) [Request Info](#)

Emerging Markets

- **Long-term bearish outlook for EM Equities** - The swing towards more Authoritarian/Autarkic structures of sovereign governance look set to continue to the detriment of returns for equity investors. EM equity index-based investment is likely to fare especially badly. [Ecstrat](#) [Request Info](#)
- **Turkey: Tight policy has served its purpose, easing is warranted** - Rates to fall rapidly as inflation normalises and growth recovers. NPL stress expected to be much better than reflected in stock valuations. [Totem Macro](#) [IRF Event](#)

- **China: NPC & Trade** - Grim outlook for 2019. Trade deal agreement will require either President Xi accepting an onerous enforcement regime or President Trump accepting a deal that lacks one. The market remains overly complacent about the prospects for agreement. [Macrolens](#) [IRF Event](#)
- **Indian elections analysis: Modi's position in jeopardy?** Hung parliament the most likely outcome. The BJP's current allies and its new ones will demand Modi's removal in favour of a less domineering figure to head the government. [Centennial Asia Advisors](#) [Request Info](#)
- The interval of extraordinary weakness in the **China**-led goods economy is ending. The lurch in **US inflation swap pricing** brings opportunity. **Gold's** defensive credentials have been bolstered in the past 12 months. The above research is included in their new *Market Focus* report. [Economic Perspectives](#) [Request Info](#)
- **Chinese companies to cut mediocrity** - Now seeing strong messages to accelerate reform at the corporate level. This squeeze on bloated middle management structures is encouraging and provides a very positive response to the transitional difficulties and forthcoming foreign competition. [Sumberg Advisors](#) [Request Info](#)

Commodities

- **Copper** - Current price nowhere near high enough to incentivise the next generation of mines. Forecasting a decade of \$5+ copper prices from 2022. Existing, permitted copper mines with long reserve lives are worth far more than equity markets are currently discounting. [Renaissance Macro Research](#) [Request Info](#)

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