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The Cut - Edition 56

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

[Confirm Attendance](#)

[IRF Events Calendar](#)

Company & Sector Research

Europe

- **Intralot** - Both bonds trade on similar YTM, but rich vs. debt capacity and liquidity need. Without fresh equity from Mr. Kokkalis or a fire sale of assets, both bonds are likely pari passu and should converge. At 75c/€, the 21s are otherwise a bet on receiving security to buy Intralot time. But that achieves no deleveraging. [Sarria](#) [Request Info](#)
- **Kone [KNEBV:FH]** - Short term bullish on China's elevator sector as finding increased orders based on on-the-ground channel checks with dealers. One of the only Industrial sectors where sentiment and outlook is better than versus 6 months ago. [Silk Road Research](#) [Request Info](#)
- **Victrex [VCT:LN]** - Short term issues have dominated but the long-term picture has been improving substantially. Work focuses on areas of growth, margin benefits from utilisation, and the optionality from the "Mega" programmes. Intrinsic value £37. (65% upside). [StockViews](#) [Request Info](#)
- **BIC [BB:FP]** - Insiders selling shares; similar sells have previously all followed a sharp fall in share price. [Smart Insider](#) [Request Info](#)

- **Novatek [NVTL:LI]** - Chairman bought \$4.5 mil worth of stock on March 11, the previous 2 were timely. Showing strong stock performance. [Smart Insider](#) [Request Info](#)

North America

- **L Brands [LB:US]** - Activist firm, Barrington Capital, to address business challenges and improve long term value for shareholders, recommended either Victoria's Secret spin-off or Bath & Body listing; SOTP suggesting 40% upside. [Spin-Off Research](#) [Request Info](#)
 - **L Brands [LB:US]** also covered by [Gordon Haskett](#) on event driven side and [The Retail Tracker](#), [SW Retail Advisors](#) for Retail insights
- **Lulu [LULU:US]** - Building strength - being one of the only stores with positive store-only comps and robust digital growth and is poised to exceed already strong guidance. [Customer Growth Partners](#) [Request Info](#) [IRF Event](#)
- **Target [TGT:US]** - After excellent 4Q is recapturing its past style DNA with a host of new brands in fashions and home, while slowly improving its still subpar food & beverage department. [Customer Growth Partners](#) [Request Info](#) [IRF Event](#)
- **Lyft [US]** - The IPO of the first of two major tech IPOs of 2019 is too early to call due to a lack of published pricing. Currently compiling alternative data for Lyft and Uber's IPO based on the global market for ride sharing, economics of growth and future prospects of the business. [Hedgeye](#), [Request Info](#)
- **McCormick [MKC:US]** - Food flavouring company predicted to double over next 5 to 7 years due to a portfolio of dominant brands, healthy living trends as well as consumers eating more diverse cuisine. 4x times larger than next competitor with 20% market share in spices and seasoning category. [2Xideas](#) [Request Info](#)
- **Stericycle [SRCL:US]** - Once a high-flying waste manager that traded north of \$140 in 2015, the stock is now ~\$49! All eyes will be on incoming CEO Cindy Miller who joined as COO from UPS last September. Long thought a CEO change was necessary and beginning to get bullish. [Gordon Haskett](#) [Request Info](#)
- **Star Bulk Carriers [SBLK:US]** and **Golden Ocean Group [GOGL:NO]** - Dry bulk shipping companies trading at multi year lows. An absence of Brazil sourced iron ore after dam collapse, productions cuts in China to adhere to pollution reduction guidelines and other port restrictions have battered stock price; confident that supply side will stabilise and Chinese

imports will resume with winter season wearing off. [Drewry Maritime](#)

[Request Info](#)

- **Cognizant [CTSH:US]** - Given Frank D'Souza's shock retirements and serial insider selling across the management team, it has been a bold, yet calculated move hiring Brian humphries as next CEO; good news that they picked outside the firm. [Management CV](#) [Request Info](#)
- **Upside in IT Sector as Yields Fall** - Risk assets are benefiting from falling yields. The Philly Sox index saw a very strong rise of 5.6%. The IT sector is the S&P500's top performing sector (up 17.76% y/y) and will lead the S&P500 to new highs. [GFC Economics](#) [Request Info](#)

RoW

- **NIO [NIO:US]** - Chinese Electric Car manufacturer saw stock jump 30% in 2 days following American sensationalist headlines. However, company is a dime to a dozen in China and predicts the hype will dissipate soon as Chinese government cuts EV subsidies, accelerated by Trump admission push to create fairer marketplace. Predicting 70% downside. [JL Warren](#)
[Request Info](#)
- **CreditoReal [CREAL:MM]** - In the face of cyclical issues, Mexican non-bank financial institution continues to grow its loan book at 20% with a mid-teen ROE. Trades at TTM PE of 4.3x and PB of 0.64x. Based on a fair PB of 1.5x, the 2019 base case fair value per share is MXN46.47, 160% above the current share price. [Reperio](#) [Request Info](#)
- **Tencent [700:HK]** - Online advertising and social network business is at 35% - 40% level but expected to slow due to increased competition and China's dismal macro situation. Its gaming arm, a major revenue source, is facing head winds such as regulatory issues preventing the release of new games and faces a backlog from the recent licensing suspension. [Adnaan Ahmad Research](#) [Request Info](#)
- **Saudi Stock Market** - Allocations among GEM funds are increasing; however, only 9% have exposure. This is expected to increase as even the smallest MSCI EM index nations, Pakistan and Egypt, have attracted 14% and 24% of funds respectively. [Copley Fund Research](#) [Request Info](#)

[IRF Event](#)

Macro Research

Developed Markets

- **US Growth Concerns** - Aggregate net short positioning in 2 to 30 year contracts at lowest level since Oct 2017, consistent with disappointing

recent US macro data. Fed policy prospects favour long gold positions. Cyclical bull market ongoing but weakness in equities. [Longview](#)

[Economics](#) [Request Info](#)

- **US Dutch Disease in UST Exports** - Washington and Wall Street have seen their wealth grow as they piggyback on the US dominant position in the money market, and unless the USD's reserve status is changed countries including China will exploit it. [FFTT](#) [Request Info](#)
- **British Labour Market Melt-up** - Unemployment fell to 3.9% on rapid wage growth of 222k (100k above consensus estimate). This is exaggerating strength and the correction could lead to a sharper slowdown in the data, irrespective of Brexit. The BoE's response is paralysed with current political drama. [Heteronomics](#) [Request Info](#)
- **Eurozone Rebound** - economic data will stabilise and improve as credit, borrowing and real estate interest progresses along with consumer spending trends. Eurozone growth estimate in 6 months remains at ~2% y/y. [Arbor Research](#) [Request Info](#)
- **Made in Japan** - Exports strengthened in February (-1.2% vs -8.4% in Jan). The annual growth of exports will come under pressure following the momentum in US industrial production. Annual growth of imports will stabilise at current depressed levels. [AAS Economics](#) [Request Info](#)
- **Cheap Japan** - Equities have seen improvements for a decade as EPS growth out-paces other markets, yet they continue to underperform. Buy-backs and paying down debt has resulted in a now lightly leveraged Japan. [Minack Advisors](#) [Request Info](#)

Emerging Markets

- **i Robot** - China's leading investment in robots will help offset its declining working age population. The impacts of such automation on demographics metrics is being largely ignored by economists. [FFTT](#) [Request Info](#)
- **Great Role of China** - China's recent BoP deterioration represents constraints on authorities' ability to ease domestic policy stance. Significant easing likely to occur anyway, leading to potential 5-10% fall in RMB's value. Note that 1994 BoP crisis and 2015 RMB events were prefaced by sharp rally in equity prices. [Andrew Hunt Economics](#) [Request Info](#)
- **Russia Making Moves Abroad** - Moscow's latest foray into Taliban-Afghan negotiations highlight its growing geo-political influence. Moscow is partnering with China as Beijing supplies capital (\$46 billion in Silk-Road funding) and Russia provides military power. However, lack of plans

for domestic economic stimulus could be Russia's Achilles' heel.

[Inferential Focus](#) [Request Info](#)

- **Turkey** - New US sanctions underway if Russian S-400s purchased and aid to Maduro continues. January industrial expansion signals hopes that the biggest recession worries are behind us, but budget deterioration and increasing unemployment suggest otherwise. [GlobalSource Partners](#)
[Request Info](#)
- **Thai Politics** - After an offshoot party is banned, pro-junta Pheu Thai party is without an ally in the upcoming election - the first since the 2014 coup. A pro-junta alliance is becoming more likely. [Oxford Analytica](#)
[Request Info](#)
- **Kazakhstan's Uncertainty** - President Nazarbayev unexpectedly resigned and it is unclear who will run for presidency. It follows the president's recent increased interest in economic policies and dissatisfaction with government performance. Political uncertainty will affect Kazakh assets. [Emerginomics](#) [Request Info](#)

Commodities

- **OPEC Oil Cuts** - December production cut agreement expected to reach 100% compliance soon with Saudi Arabia remaining on course to rebalance the market, irrespective of Trump's tweets. April meeting could be cancelled to avoid clash with Trump's decision on renewing Iran's oil waivers from sanctions. [Hedgeye](#) [Request Info](#)
- **Copper's Rise** - The red metal is facing weak supply dynamics with significant demand growth, leading to firmer prices being expected. Market seems to agree with trading volume for copper call option at record levels, signalling supply issues. [Economic Perspectives](#)
[Request Info](#)

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