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The Cut - Edition 61

Introducing the very best of Independent Research from the IRF Providers

Events

IRF Presentation with Gerard Minack of *Minack Advisors*

"More Goldilocks: the US expansion keeps going"

Wednesday 5th June at 10:00am

The Lansdowne Club

LAST CHANCE [Confirm Attendance](#)

IRF Presentation with Matthieu Raimbault of *Palissy Advisors*

Oil's Fundamentals: Updated supply and demand forecasts, OPEC meeting impacts, current industry themes and high conviction equity ideas

Thursday 6th June at 10:00am

The Lansdowne Club

LAST CHANCE [Confirm Attendance](#)

[IRF Events Calendar](#)

Company & Sector Research

Europe

- **Bachem** (BANB SW) - Dominant position in peptide chemistry; strong pipeline of NCE's. Expansion into the production of pharmaceutical oligonucleotides makes strategic sense. Current share price implies an average sales growth of 6.2% p.a. - has beaten this by a whopping 250bp over the past 7 years. [Research Partners](#) [Request Info](#)

- **dormakaba** (DOKA SW) - Security systems provider. Long running management disappointment has been forgotten. Structurally slower growth, combined with management incentives, has led to a series of acquisitions, which are destroying shareholder value. Margin targets are ambitious and unsustainable. 35% downside. [StockViews](#) [Request Info](#)
- **Coloplast** (COLOB DC) - Market leader, superior products, well placed to benefit from the tailwinds of demography and obesity. Estimates organic sales growth and EPS growth of 8% and 9.8% p.a. (to FY 2025E). Will return a large proportion of FCF to shareholders. [2Xideas](#) [Request Info](#) [IRF Event](#)
- **Marks & Spencer** (MKS LN) - Has recently featured heavily in 'The Daily Retailer', a daily email briefing written by Nick Bubb, on the (UK) retail sector and company developments. M&S is enthused about the potential for its very expensive venture with **Ocado**, but Waitrose will not make it easy for them. [Bubb Retail](#) [Request Info](#)
- **Solutions 30** (ALS30 FP) - IT repair services. Share price collapses. Recently highlighted concerns regarding company accounts. These include a material benefit to EBITDA growth from 'net other operating income (expense)' and inadequate disclosure preventing verification of organic revenue and analysis of YoY trends. [PN Finance](#) [Request Info](#)
- **Telenor** (TEL NO) - Telecoms. Further major capital upside potential to FV (NOK 205) post DNA acquisition and tie up with Axiata in Asia. Consensus also not factoring in guided opex cuts, which at mid-point boosts 2020E EBITDA and OpFCF estimates. Potential for c.45% of M/Cap to be returned to shareholders 2019-22E. [Sharp Equity](#) [Request Info](#)

North America

- **Apple** (AAPL) - Further downside expected. June guidance is at risk due to US-China trade issues and consensus iPhone estimates at risk as 5G roll-out in China will likely be delayed due to Huawei blacklist. Their call was mentioned in a [Bloomberg article](#) earlier this month. [Lynx Equity Strategies](#) [Request Info](#)
- **BCE** (BCE CN) - Telecoms. Does Avg. Revenue Per User not matter? Avg. Billings Per User grew 1.2% YoY, but this metric is masked by subsidised customers. Not coincidentally, the company now no longer reports ARPU (not influenced by subsidies), removing it as a KPI. Estimates ARPU actually declined 2.6% YoY. [Veritas Investment Research](#) [Request Info](#)
- **Cerner** (CERN) - Significantly more room for margin expansion than company guidance suggests; expects c.25% operating margins in 2022 (2018: 18.8%).

Longer term organic growth in both Revenue Cycle and Population Health Management driven by ongoing move to value based care. +40% upside. [Abacus Research](#) [Request Info](#) [IRF Event](#)

- **Kohl's (KSS)** - ASP thesis playing out. Negative bias remains. Correctly predicted less permanent/promotional markdowns were unsustainable and how management were wrong to believe that they did not need to be as generous with customer rewards. Also negative **Ralph Lauren**, both calls have returned over 20% in just a few months. Downgraded **PVH** last August, ~50% return. [SW Retail Advisors](#) [Request Info](#)
- **Nvidia (NVDA) & Mellanox (MLNX)** merger - Explains why **Qualcomm's** failed bid for **NXP Semiconductors** is not the right reference for the NVDA/MLNX transaction and how the recently widened spread offers an attractive risk-reward opportunity for arbs. [AlphaSituations](#) [Request Info](#)
- **US MLP sector** - Bullish medium-term outlook on the back of compelling valuations (historically cheap absolute and relative valuations), high dividend yields, strong thematic (US energy industry revival, oil export growth). Short-term technicals picture also supportive. [Topdown Charts](#) [Request Info](#) [IRF Event](#)

RoW

- **Chinese Automotive market** - Reaffirms Positive sector view; sell-off provides a buying opportunity. Registrations tracking above expectations. Industry sales stabilising and pent up demand, tax cuts and stimulus actions will lead to a re-acceleration in sales growth in 2H19. **Valeo, BMW, Daimler** and **VW** highlighted. [Silk Road Research](#) [Request Info](#) [IRF Event](#)
- **Indian Consumer** - Checks indicate an emerging urban consumption problem. The pain is shifting from rural to the urban consumer. Lack of growth is impacting wages/jobs, affecting the pace of premiumisation. Companies highlighted include: **Nestle India, Marico, Hindustan Unilever** and **Dabur India**. [ASA Capital](#) [Request Info](#)
- **iQiyi (IQ US)** - Not the 'Chinese Netflix'; video streaming industry in China cannot be compared to that in the US. Unclear path to profitability, membership business impacted by tightening regulation and gross advertisements hurt by weak Ad spending and content scrutiny. [JL Warren Capital](#) [Request Info](#)
- **Sony (6758 JP)** - Examines why the shares have fallen since the Investors' Day presentations. Unfortunately, it was another case of 'The Good (Pictures, Music

- and AV Hardware), The Bad (Handsets and Semiconductors) and The Ugly (Financial Services and Games)'. [Pelham Smithers Associates](#) [Request Info](#)
- **Huawei bonds** - Expects further negative news on the company this year and asymmetric downside risk on the bonds. Profit margins will decline near term, but the key to bondholders will be the Chinese government's support of the group. [Bondcritic](#) [Request Info](#)
 - **China A-Shares: Allocations at all-time highs** - Examines positioning among GEM, Asia-Ex Japan and Global funds. Preferred sector is Consumer Staples. Most popular stock is **Kweichow Moutai Co.** Includes comprehensive lists of holdings and holding changes among the 560 funds covered. [Copley Fund Research](#) [Request Info](#) [IRF Event](#)

Macro Research

- **The Hong Kong Dollar peg is no longer** - It is now subject to a discretionary fixed ex/r target. This hugely important change in status means that over the longer term the HKD will depreciate or, more likely, cease to exist in favour of the RMB. [Andrew Hunt Economics](#) [Request Info](#)
- **Labour has become the variable factor of production** - Examines how to reconcile strong employment growth (and low unemployment) with muted wage growth. Major shift in labour relationships each decade for the past 30 years; now seeing the cumulative impact of these changes. [Suttle Economics](#) [Request Info](#)
- **ESG is a victim of its own success** - The race to embrace has encouraged companies to focus on information which best fits their PR spiel instead of working towards intelligible and standardised reporting. This is likely to leave many so called ESG investors with egg on their face when the cycle turns. [Sustainix](#) [Request Info](#)
- **Competitive currency devaluation is over** - Foreign exchange markets will play a larger role than policy rates in alleviating deflation shocks in the years ahead. Favours G3 currencies (prefers euro and yen vs. dollar) vs. a basket of the AUD, CAD, CHF, GBP and SEK. [MRB Partners](#) [Request Info](#)
- **Global credit** - Global profits have entered a bear market that will expose credit risk on an unexpected scale. Watch credit spreads and flows into credit funds for a timely commentary on the re-pricing of corporate credit. [Economic Perspectives](#) [Request Info](#)
- **Growth & Inflation** - The rate of growth in global demand peaked in the early 1980s. The structural disinflation unleashed since then as a result of slower

- growth means that inflation will continue to surprise to the downside, further confounding central banks. [Hokenson Demographics](#) [Request Info](#)
- **Australia: Policy easing arriving too late?** - Even if lower mortgage rates and relaxed macro-prudential put a floor under house prices, it's not clear that a turn in house prices will come soon enough to forestall a broad rise in saving. If saving does start to rise, recession will remain a risk. [Minack Advisors](#) [Request Info](#) [IRF Event](#)
 - **Brexit: Farewell May, enter the BoJo** - Boris Johnson is successfully courting the favours of Remainers due to the fact that he is not a convinced Brexiter, but rather an opportunist who will change his position based on convenience. [Eyes-Only](#) [Request Info](#)
 - **China: A hotbed of systemic risk once again** - Has picked the worst time to inflict losses on bank creditors (for the first time in c.20 years!) and is the last thing one would do just prior to opening the credit floodgates.
 - Xi Jinping is determined to pursue a 'long march' strategy of trade war and financial retrenchment. He fails to understand that this will necessitate China's withdrawal from global trade and finance in order to safeguard domestic stability. [Macrolens](#) [Request Info](#)
 - **Russia: Looking out to 2024** - A managed transition is not a foregone conclusion. China/Russia axis of authoritarianism; Putin has tied the country's fortunes to China at precisely the wrong time. Sanctions, new measures still expected. Economy, little prospect of real reform or diversification. Sceptical about both the equity market and rouble. [Ecstrat](#) [Request Info](#)
 - **US vs. Japan: 'QE Forever'** - Consensus is that the US can implement Japanese yield curve control or 'QE Forever' metrics without hurting the USD. The diametrically opposite deficit, funding (internal vs. external) and NIIP differences between the two countries suggest this view is incorrect. [FETI](#) [Request Info](#)
 - **US 10-Year yield** - The March low at 3.34% has been swept away and the steep medium-term downtrend will drive yields to the next identifiable support level, namely the 2017 low at 2.05%, over the summer months. [Tempus Investment Research](#) [Request Info](#)

Commodities

- **Could Russia adopt a gold standard?** - Concludes that while unorthodox, a gold standard (or fixing mechanism) offers a viable option to promote currency

and price stability. Also believes it would be virtually impossible for the US to do so. [Redward Associates](#) [Request Info](#)

- **Commodities: In transitory corrective phases within the decennial 'Inflation-Pop' cycle** - This will drive prices through-the-roof over the next several years, but this next phase of reflationary pressures is not yet ready to begin. The USD is key right now; it provides the timing for an eventual USD peak and a corresponding trough in commodity prices. [WaveTrack International](#) [Request Info](#)

IRF works with 180 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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