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The Cut - Edition 62

Introducing the very best of Independent Research from the IRF Providers

## Events

Stock Picking with Mark Hiley of [The Analyst](#)

European Equity Long & Short Ideas

Thursday 11th July

The Lansdowne Club

[IRF Events Calendar](#)

## Company & Sector Research

### Europe

- **Fresenius** (FRE GR) - Valuation insight. A surprise profit warning and revised targets for 2020 led to a massive share price correction leaving this Healthcare company attractively valued even if you do not share management's optimism and assume significantly lower profitability and growth rates than in the past. FV €59. [EquiVal Research](#) [Request Info](#)
- **Hays** (HAS LN) - Unique analysis of structural growth in net fee per fee earner shows this is being undervalued. Cost advantage vs peers also unappreciated and will allow for further conversion rate expansion. 40% of M/cap to be returned via dividends, driven by capital light model and >90% cash conversion. [StockViews](#) [Request Info](#)
- **Novartis** (NOVN SW) - Zolgensma's forecasts too low for 2020 and \$1.6bn peak sales will be achieved in just 3 years. TP CHF105, implies the company trades on 19x 2020 EPS reflecting its peer-leading R&D and 10% EPS CAGR 2019-24. [Intrinsic Health](#) [Request Info](#)
- **European corporate distressed & special opportunities, HY bonds** - Recent coverage includes: **Matalan** - Staying long, thesis playing out, FX hedge roll is working nicely. **Lowell** - Examines Deutsche Bank and JP Morgan's recent analyses vs their own views/models. [Sarria Analysis](#) [Request Info](#)

## North America

- **Huawei fallout: Implications for US companies** - Market sell-off for many companies was completely irrational, but has provided some fantastic opportunities. **Ciena**, has no exposure to China and now it's largest competitor has been crippled forever; shares rose +20% on recent earnings report. **Lumentum** and **Acacia Communications** also highlighted. [Inflection Point Research](#) [Request Info](#)
- **Autos: Secular not cyclical downtrend over next 3-5yrs** - The biggest companies have focused on profit over market share, but consumer affordability is now a serious issue. New car sales are falling, used car sales rising. Many weaker companies will be forced to exit the market. [The pH Report](#) [Request Info](#)
- **Chemicals: Valuations already discount a recession** - Many companies currently near yield support levels, today's balance sheets are far better positioned than those of past pre-recessionary stages. **LyondellBasell**, **Westlake Chemical**, **Dow Chemical** and **Olin**, all now offering significant upside. [Alembic Global Advisors](#) [Request Info](#)
- **American Airlines (AAL)** - Ridiculously cheap, FCF yield is set to soar. 47% upside to 12-month TP. **Delta Air Lines (DAL)** - Amex deal can keep margins climbing. 32% upside. [Churchill Research](#) [Request Info](#)
- **Canada Goose (GOOS CN)** - Thesis playing out following share price collapse last month, but still offers a further ~40% downside. The stock is in 'growth purgatory', business model is changing and 1,000bps of risk to margins. [Hedgeye](#) [Request Info](#)
- **Herbalife (HLF): A five-catalyst upgrade** - Reacceleration in China, refinancing of Aug 19 convertible bonds, new CEO announcement, elimination of the Icahn overhang and the cooling of the geopolitical environment. \$55 TP. Has previous success with HLF having initiated with a Buy in 2017 and then downgraded to Hold in 2018 (~40% gain). [Lane Research](#) [Request Info](#)
- **Match (MTCH)** - Key asset (Tinder) has seen growth stall in the US and it shows no signs of improvement. Investors also failing to appreciate the cultural issues and conversion challenges posed by expansion outside of US/Tier 1 English countries. [Gossamer Consulting Group](#) [Request Info](#)
- **McCormick & Co. (MKC)** - Trades at ~29x 2019 earnings estimates. Queries organic sales growth figures following the Reckitt Benckiser food division acquisition. The recent quarter was also greatly aided by a much lower tax rate despite their FY guidance suggesting otherwise. Large debt means they can no longer grow via acquisitions. TP \$75 (+50% downside). [Atlantic Equity Research](#) [Request Info](#)
- **PG&E Corp. (PCG)** - New CEO Johnson's 25-year experience in the utility industry makes him a strong match for the company as it moves

through bankruptcy. Although he lacks restructuring experience, he has a proven ability to navigate the political and regulatory landscape while balancing competing stakeholder interests. [Paragon Intel](#) [Request Info](#)

- **Visa (V) & Mastercard (MA): Face long term challenges** that are beginning to unfold and it is crucial for investors to understand that Visa is looking to extend its token-routing rules and associated pricing power from plastic to digital payments and large merchants are resisting. [RenMac](#) [Request Info](#)
- **Zebra Technologies (ZRBA): Challenging the bear thesis** - Marking, tracking and computer printing technologies manufacturer. Stress tests FY20 assumptions. Products play a critical role in customers operations, minimal exposure to China and tariff concerns overblown. TP \$250. [Northcoast Research](#) [Request Info](#)
- **ESG: Real Estate sector** - 'Green Premium' shrinking (esp. in DM), but an opportunity lies in shifting to buying 'Brown Discounted Buildings' and refurbishing them in a sustainable manner.
  - **How to climate-test your portfolio** - Real Estate and Utilities sectors could de-rate substantially in response to climate related risks. [Sustainable Market Strategies](#) [Request Info](#)

## RoW

- **Fufeng Group (546 HK)** - Food additive manufacturer (leading producer of MSG). Given its competitive position, profitability and financial health the company is too cheap trading on 5.4x EV/EBITDA (with a cyclically depressed EBITDA); 0.78x EV/IC and offering a 7% dividend yield. [Reperio Capital Research](#) [Request Info](#)
- **Marico (MRCO IN)** - Consumer goods (Health and beauty). Channel checks with the company's distributors indicate Saffola's strong performance will continue, as well as regaining volume growth in the value added hair oil segment. Checks also indicate MRCO's aggression in hair oil will make **Dabur's** portfolio more vulnerable. [ASA Capital](#) [Request Info](#)
- **Taiwan: Banks** - Improvements in liquidity, capitalisation, asset quality, profitability and efficiency explain the high PH Scores™ for the five lenders covered. Favourites: **Taiwan Business** and **Taichung Commercial Bank**. **China: Banks** - Valuations too downtrodden? [Creative Portfolios](#) [Request Info](#)

## Macro Research

### Developed Markets

- **Is Japan's economy sicker than we believe?** - Firms continue to expand inventories despite shrinking population and flat demand. Ratio of inventories-to-sales is a massive red flag as it reaches 2011 pre-tsunami levels. A recession must ensue. [High Frequency Economics](#) [Request Info](#)
- **Australia: Fantasy land** - The RBA still doesn't 'get' what's going on. Policy must become more accommodative. Correctly predicted the below consensus Q1 GDP result. Reserve Bank will cut the OCR a further 25bps (Aug & Nov) and is heading towards ZIRP if US decides to cut rates. [Redward Associates](#) [Request Info](#)
- **Deceleration throughout global economy** - Driven by declining monetary growth, major country economic weakness should continue and, combined with subdued inflation, will likely see accelerated QE and rate cuts. Major government bond yields to fall further and commodity prices to soften. [AAS Economics](#) [Request Info](#)
- **Political risk 2019-20: Strategy to Trump's madness?** - A popular theory is that Trump is trying to outflank Dems on trade, drugs and tech to play to his base and that he'll subtly let up and rely on the Fed to ensure a juiced economy as elections near. Markets are seen already discounting a tougher regulatory environment, earlier than in any previous election cycle, regardless of who'll win. [Capital Alpha Partners](#) [Request Info](#)
- **Eurozone: Less reliant on manufacturing** - German service sector picking up more slack than believed and French services sector has rebounded. Despite weakness in Portugal, EZ unemployment rate is at a cyclical low of 7.6%. [GFC Economics](#) [Request Info](#)
- **Italy: Parallel Currency or MMT? Same outcome likely** - Both may side-step Euro rules, but Italy's trade and capital accounts will widen. The EZ will then be required to increase TARGET2/ECB lending or withdraw funding. Euro project to be severely tested once more. [Andrew Hunt Economics](#) [Request Info](#)
- **US labour market: The slowdown** - Complacency about wage growth has set the FOMC/Wall St. up for a nasty surprise in late 2019. No signs of a slowdown in demand for labour. Low-skill end (few workers being produced) is experiencing rapidly accelerating wage growth. High-skill portion will soon experience a shortage of resources as 2018 represented 'Peak Graduation'. [Intertemporal Economics](#) [Request Info](#) [IRF Event](#)

## Emerging Markets

- **Capital inflows collapse** - EM Liquidity Index (EMLI™) falls to multi-year lows. Large-scale capital flight from EM (ex China) of \$75bn in May, despite net inflows of \$10bn into China. Future EM prospects depend crucially on timing of People's Bank monetary easing. [CrossBorder Capital](#) [Request Info](#)

- **South Africa: Poor policies, poor prospects** - How will the factionalism within the ANC break and how will the country's economic fragilities drive the outcome. Huge problems mean high stakes and unfortunately the country is sleepwalking into a global downturn with large and mounting twin deficits. Being short the rand makes sense as a counterweight to EMFX longs. [Totem Macro](#) [Request Info](#) [IRF Event](#)
- **Monetary policy review - Russia:** Definitely room for immediate policy relaxation. **Ukraine:** April cut was premature, a resurgence of inflationary pressures and a delay in the IMF programme necessitate a pause in easing. **Kazakhstan:** NBK should keep its policy on hold given the growing uncertainty regarding external conditions. [Emerginomics](#) [Request Info](#)
- **China stimulus: More smoke & mirrors** - Examines 'special purpose bonds'. The market has been obsessing over stimulus for the better part of a year now, but there remains little sign of it in the data. Believes that Chinese policymakers view the risks of aggressive credit stimulus as outweighing the rewards. [Macrolens](#) [Request Info](#)
- **USDCNH** - Remains in a long term bullish trend which is not over yet and needs a last push up above 6.91/6.89 to reach 7.10/7.20 over the coming 6-9 weeks. In the meantime, **CNY swaps** remain under pressure, with the 5y NDRIS (CCSWNI5 Curcny) expected to drop by 30-50bps towards 2.60/2.40%. [Emvest Partners](#) [Request Info](#)

## Commodities

- **China's zinc consumption struggles** - Diverse factors hitting both diecast and galvanised products, with a shrinking domestic market in some key sectors plus difficult export conditions, while lower quality products face substitution by aluminium and aluminium-rich alloys. [CHR Metals](#) [Request Info](#)
- **Gold & silver mining stocks: Only the beginning of the next extended rally** - Preferred stocks include: **AngloGold Ashanti**, **Polyus**, **Shandong Gold** and **Fresnillo**. Their European gold portfolio has outperformed the Euro Stoxx by +38% since Sept 18. Their S&P equivalent has outperformed the index by +21% in the last 5 weeks. [Belkin Report](#) [Request Info](#)

## Alternative Data

- **Google Search Trends & Natural Language Processing** (Federal Reserve Rhetoric) - Free trials available on request. [Arbor Research](#) [Request Info](#)

**IRF works with 184 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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