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The Cut - Edition 63

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

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Company & Sector Research

Europe

- **Distressed Opportunities: Rallye** - Models a collapsing of entities into one NewCo under a potential sauvegarde plan to be penned by Jean Charles Naouri (Casino CEO). [Click here](#) to access a sample of this work. [Sarría Analysis](#) [Request Info](#)
- **Altice Europe (ATC NA): Teads Teaser** - Telecoms. Company now only requires one sizeable disposal to reach its target leverage. This report focuses on the significant upside potential if Teads is sold; likely to achieve a >10x 2020E EBITDA multiple (€1bn). Increases TP to €6.7 (~140% upside). [Areté Research](#) [Request Info](#)
- **Altran Technologies (ALT FP): Correctly predicts takeover** - This engineering company was highlighted as a potential takeover candidate recently and even highlighted Capgemini as the likely bidder. [Advanced Investment Research](#) [Request Info](#)
- **Burberry (BRBY LN): Positive "Insider" transaction** - Julie Brown (CFO/COO) purchases 24,051 shares at £17.75. This is her third open market purchase since joining in early 2017 and by far her largest.

Brown's holdings have now tripled in the past year. [Smart Insider](#)

[Request Info](#)

- **Deutsche Wohnen** (DWIN GR) - Market has priced-in 100% probability of full/unchallenged implementation of 5yr rent-freezes in Berlin (75% of assets) with current share price implying a 45% discount to replacement cost. A worse outcome is possible (e.g. expropriation), but not probable. The balance of risks is stacked to the upside from current levels. [Green Street Advisors](#) [Request Info](#)
- **Huhtamaki** (HUH1V FH) - Food packaging. The stock has risen 50% and related to a 30% premium on a recycling of promotional targets which continue to look unachievable, while signs of stress are emerging in a worsening working capital position. 35% downside. [StockViews](#) [Request Info](#)
- **Just Eat** (JE LN) - Loss of market share to continue amidst rising competition. **Deliveroo** more established and **Uber Eats** is disrupting the market. Higher UK investment required for longer to roll out delivery; margins to come under pressure. FV 405p (35% downside). [Sharp Equity](#) [Request Info](#)

North America

- **Facebook** (FB): **Libra** - Is an attempt to strengthen its digital ad position by overcoming the 'social graph' interpolated data reliance. This is a form of digital money akin to **JP Morgan's** utility coin, but also echoes **Alibaba's** money market fund combined with Alipay. Scrutiny from regulators and central banks will be intense. [Entext](#) [Request Info](#)
 - "One of the most dangerous financial ideas I have come across in the last decade..." Howard Mason, Head of Financials research. [RenMac](#) [Request Info](#)
- **American Express** (AXP) - Accounting changes have helped to obfuscate the magnitude of cost increases; unsustainable spending to impact future revenue. With mounting pressure on the core business, can the pursuit of increased lending reliably drive sustainable growth despite being more capital intensive, more cyclical and lower return than the payments business? [Hedgeye](#) [Request Info](#)
- **Fastly** (FSLY) - Outperform rating for this cloud company at recent IPO. Strong fundamental story; 38% 2018 revenue growth (+40% in 1Q19) with 400 bps gross margin expansion. \$18bn TAM growing at 26% CAGR; large enterprise customer base. Concerns: strong competition, loss-making. [Renaissance Capital](#) [Request Info](#)

- **LGI Homes** (LGIH) - Shares up 25% since call initiated, but plenty of upside remains; TP \$130. Sees continued strong demand for the company's entry priced homes. The operating model is a key competitive advantage. Estimates active selling communities CAGR of +25% to 2020. [Costigan Reports](#) [Request Info](#)
- **Tech Hardware & Software: NEW monthly best ideas report** - High conviction ideas, near term time-frame. Latest report sees **Proofpoint** (PFPT) added; expects them to beat estimates in July. Trades at lower multiples to peer group average despite considerably faster revenue growth; TP \$140. [Summit Insights Group](#) [Request Info](#)
- **United Technologies** (UTX) & **Raytheon** (RTN) - UTX share price needs adjusting, not the deal terms. UTX is in the process of transitioning itself from being a multi-industrial conglomerate to one focused on A&D, which is not properly reflected in its share price. This has significant ramifications for an all-stock deal. [AlphaSituations](#) [Request Info](#)
- **Zynga** (ZNGA) - Merge Dragons and Empires & Puzzles continue to grow post acquisition. The next six months will see the company shift from a revenue growth story to both a revenue and margin growth story.
 - **E3 2019** - Recent coverage also includes a high-level review of the Electronic Entertainment Expo. [Gossamer Consulting Group](#) [Request Info](#) [IRF Event](#)
- **Crude tanker shipping: 2019 to finish strongly** - Stocks have already generated an average return of 25.5% YTD. Despite the seasonally weak summer, prospects for the sector are bright on the back of improved market dynamics. **Frontline**, **DHT Holdings** and **Euronav** to book significant gains in H2. [Drewry Maritime Financial Research](#) [Request Info](#)

RoW

- **Sony** (6758 JP) - Discusses whether or not the company would be doing the right thing by its shareholders over the long term if it satisfied Third Point with regard to "portfolio complexity".
 - **TIS** (3626 JP) - Successfully tested next-generation video-sharing technology, particularly promising at the dawn of 5G in Japan. [Pelham Smithers Associates](#) [Request Info](#)
- **Fuji Soft** (9749 JP): **Evolving automation** - Expects growing demand for auto and FA software, combined with reductions in unprofitable projects, to create a platform for margin, profit and stock price improvement. [Storm Research](#) [Request Info](#)
- **Mindray** (300760 CH) - Domestic medical machinery leader. China's

equipment manufacturers will maintain a growth rate of over 15% thanks to the support of government procurement policies and advanced technology to compete with imported products. **United Imaging** (private) is also ideally placed to benefit. [Horizon Insights](#) [Request Info](#)

- **China: Construction & Mining Equipment, further weakness ahead** - Latest survey revealed a sequential deterioration vs 1Q19. Demand indicators at an 11-qtr low and price wars (previously highlighted) continue to impact the sector. June excavator sales also tracking below expectations. **Caterpillar** is a favourite short. [Silk Road Research](#) [Request Info](#) [IRF Event](#)
- **Asian Towers Trends: Structurally Overweight for 5G and M&A** - Investors looking to recycle funds out of expensive US towercos should look to Asia. Recently upgraded **Bharti Airtel**; clear inflection in both sales and EBITDA. +65% upside. [New Street Research](#) [Request Info](#)
- **Australia: It is not too late to buy domestic cyclicals** - Market failing to appreciate how consumers' spending power will strengthen before Christmas. Adds **JB Hi-Fi** (home entertainment retailer) and **CSR** (building products) to their Equities Model Portfolio. [Macro Strategy Advisors](#) [Request Info](#)

Macro Research

Developed Markets

- **Central banks finally facing up to the possibility of a recession** - The problem is that their approach remains focused on supporting stock markets and fails to recognise the growing risk in the corporate bond market. [The pH Report](#) [Request Info](#)
- **Rare shift in Australia, Canada sovereign yields** - The Australian 10yr yield has dipped below the Canadian 10yr yield for the first time since 2001. This remarkable move may be short-lived with Australia continuing to lead a global rebound in (Google) search trends. [Arbor Research](#) [Request Info](#)
- **Bullish unhedged Japanese equities** - Multi-year lows in market valuation, TSE margin trading and CFTC spec. positioning. Abe poised to defer the consumption tax hike; BOJ poised to ease. Rugby World Cup and Summer Olympics will provide a boost to confidence and spending. [Economic Perspectives](#) [Request Info](#)
- **How much does ECB easing really matter?** - No sign of any pick-up in

global trade activity; EZ inventories at multi-year highs and weakness in key cyclical parts of Europe's economy (trade & manufacturing) is spreading. Efforts to make money cheaper will not generate a cyclical re-acceleration in growth. [Longview Economics](#) [Request Info](#)

- **Digital Giants: The cost of withdrawal** - While markets fret over the possibility of government regulation, should those worried about regulations be looking more closely at how large these enterprises have become and whether or not size and success are more likely to undo the digital behemoths than governments? [Inferential Focus](#) [Request Info](#)
- **An ageing planet makes monetary policy highly asymmetrical** - The ability of central banks to stimulate growth and/or inflation diminishes while their ability to restrain is enhanced. [Hokenson Demographics](#) [Request Info](#)
- **Outwit the machines** - AI/computerised day trading programmes are completely wrong about the interest rate, economic and stock market cycles. Fed rate cuts at the beginning of a prolonged recession are bearish for stocks. Yield curve steepening (30yr minus 2yr i/r spread) is a far bigger issue than any yield curve inversion. [Belkin Report](#) [Request Info](#)

Emerging Markets

- **China: Return of shadow banking** - This quarter firms reported the highest share of shadow borrowing as a share of overall borrowing in CBB's survey history. Every sector reported jumps. More shadow finance typically means more expensive credit, adding repayment pressure to the second half of 2019.
 - **CNBC "Squawk Box" interview** - Leland Miller (CEO CBB) discusses his exclusive data out of China; Q2 saw modest but unsustainable growth. [China Beige Book](#) [Request Info](#)
- **Turkey: Rumours and policy signals** - Cabinet re-shuffle anticipated; new parties will be formed. S-400's not a done deal. Still expects reform/moderation of social policies as well as an IMF programme before year end. Full analysis provided by the country's leading political analyst and commentator, Atilla Yesilada. [GlobalSource Partners](#) [Request Info](#)
- **China: Further decline in SHIBOR lending rate** - Examines the implications of the overnight rate falling to a decade-low. The only other time in recent years that rates have hit such a low level was during the financial crisis in 2008/09. Believes China is currently facing significant banking stress. [Commodore Research & Consultancy](#) [Request Info](#)
- **Philippines: Geared for take-off as reforms pay dividends** - The

Administration now has the numbers in the Senate to ensure passage of the remaining tax packages by 2020. Significant improvement in the debt ratio has allowed a surge in infrastructure spending which is boosting economic development. Estimates full year 2019 growth of ~6%.

[Centennial Asia Advisors](#) [Request Info](#)

- **Fed, ECB will flatter EM bond returns** - Overweight EMLCD in a global fixed-income portfolio; liquidity is plentiful and downside risks to growth are limited. Continues to favour HY bonds; dovish Fed effectively forgives domestically-derived policy/political risks. Takes profits on Brazilian bonds which are priced for perfection. [MRB Partners](#) [Request Info](#)
- **Malaysia: OPR cut looms** - At the next Monetary Board meeting (9th July) the BNM will cut the OPR by a further 25bps, to 2.75%. Sees scope for front-end rates to rally; enters a received position in MYR 1y1y ND IRS at 3.23%; target 2.25%. [Redward Associates](#) [Request Info](#)

Commodities

- **Bitcoin: Reaches target, time to liquidate long positioning** - Elliott Wave analysis. Minimum downside objectives are now back towards support at “fourth wave preceding degree”, the fib. 38.2% retracement area of 7441.53. [WaveTrack International](#) [Request Info](#)
- **Commodities: Bullish outlook** - Undervaluation, light positioning, improving breadth and technicals. Also expects current global growth scare to pass and USD to weaken providing a further tailwind for the sector. [Topdown Charts](#) [Request Info](#) [IRF Event](#)

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