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The Cut - Edition 64

Introducing the very best of Independent Research from the IRF Providers

IRF Events Calendar

Company & Sector Research

— EUROPE

ISS (ISS DC): Making an exceptional mess of its accounting for a cleaning company!

Will be unable to deliver on FCF guidance without further expanding the use of factoring and reverse factoring. FCF to miss consensus forecasts by 32%. Impressive track record re. short calls including: **Steinhoff** and **Aryzta**.

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[TT Equity Research](#)

Kering Group (KER FP) & LVMH (MC FP)

China luxury brands retail survey review. Both companies continue to lead luxury goods market GMV growth; Gucci to deliver ~25-30% YoY in GMV in Greater China in H1 and Louis Vuitton ~20-25%.

Estee Lauder (EL US) - Negative feedback from Daigou merchants as consumer

spending sentiment weakens as well as consumption repatriation due to narrowing in price differentiations thanks to heavy 618 promotions.

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[JL Warren Capital](#)

INWIT (INW IM)

Turns bullish on 5G roll-out fees and anticipated higher Small cell growth. The **TIM-Vodafone** passive sharing partnership will also be highly value accretive. TP €12.8 (+40% upside).

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[Insight Investment Research](#)

Future (FUTR LN)

Media company. Organic growth expected to slow as monetisation of content is harming key brands' reputation (TechRadar, Tom's Guide etc). Quality of earnings is very poor while warped incentives are driving an aggressive acquisition strategy.

Share price has already fallen c.20% since the call was initiated.

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Sports Direct (SPD LN)

Featured heavily in recent editions of 'The Daily Retailer', an email briefing written by Nick Bubb, on the UK Retail sector and company developments. Final results (18/7) expected to reveal weak trading in the core business and integration problems after controversial M&A activity.

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[Bubb Retail](#)

— NORTH AMERICA

Cisco (CSCO) to acquire Acacia (ACIA)

Doubles down on optical to get a foot in the Hyperscale front door. Overall optical transport landscape has changed forever. Examines implications of the deal; companies covered include: **Arista**, **Broadcom**, **Ciena**, **Intel**, **Lumentum** and **Juniper**.

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Carvana (CVNA)

Online used car retailer. A favourite short for H2; highlighted in their Liquidity Risk Model. Structural disadvantages will not allow them to disrupt the industry. Long term profitability goals rest on flawed assumptions and are unrealistic. Unusual loan transactions inflating profitability. Very high cash burn.

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[Two Rivers Analytics](#)

Celanese (CE)

Chemicals company. New CEO's credentials examined. Evidence suggests Lori Ryerkerk will accelerate top-line growth, expand margins and deploy the free cash to repurchase shares.

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[Paragon Intel](#)

Coupa (COUP)

Back-office software supplier. Accelerating growth and expanding margins. Clear potential for current +40% growth to continue for several years (vs consensus

estimating a sharp slowdown).

Recent coverage also includes: **ANSYS**, **Cerner**, **Hexcel** and **Spotify**.

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CVS Health Corp. (CVS)

Market leader and vertically integrated operation trading at an undeservedly low valuation vs peers. Latest report examines the 'Retailisation of healthcare'; benefits of the Aetna acquisition and puts the risks posed by Amazon into perspective.

TP \$75 (36% upside).

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[Boyar Research](#)

Energizer Holdings (ENR)

Limited/no exposure to the exciting innovations and high growth opportunities in the battery industry. Recent acquisitions creating a drag on top-line performance. Accounting concerns re. trade receivables and prepaid expenses.

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[Gradient Analytics](#)

Meredith (MDP)

Media company. Value trap; FY20E EBITDA of \$823.5m considerably lower than the \$1bn est. by the company. Long thought they made a huge mistake leveraging up to buy **Time Inc.** and they have struggled with it ever since. Prefers **Nexstar** and **Sinclair**.

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Teva Pharmaceutical Industries (TEVA)

Closes short position for ~60% profit. Original thesis: Highly indebted and overly reliant on one drug that had two generic competitors coming to market. Correctly anticipated the 'turnaround' story that The Street was expecting would not occur. Other short ideas that have significantly outperformed recently include: **Dave & Busters**, **YELP** and **iRobot**.

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Climate-related systemic risks vs global insurance sector

Outperformance in this sector unlikely to continue. Growing non-life premiums to reduce accessibility for many customers to insurance as climate risks still have to be fully priced into policies/equities. Reinsurers face even bigger challenges.

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[Sustainable Market Strategies](#)

— ROW

Time to refocus on Japan's Fintech revolution?

Sharp move higher in Bitcoin and with **Facebook** unveiling Libra, they review developments in Japan's Fintech industry. Companies highlighted include: **DTS**, **NEC Data**, **SBI** and **TIS**. Recent coverage also includes: Market strategy for Q3 as Tankan bifurcates; sees 9 changes to the 34-stock PSA focus list.

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[Pelham Smithers Associates](#)

Vodacom (VOD SJ)

Faces structural revenue/return/political headwinds. Examines spectrum availability and data pricing in S. Africa. With spectrum imminent and VOD being forced to react to **Telkom's** aggressive pricing, data tariff declines will accelerate, putting increased pressure on earnings.

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Macro Research

Why Woodford and H2O matter

Liquidity transformation is a core role of financial markets but comes with risks. Those risks have been distorted by central bank policy and are exposed as growth slows. If we can't extend the economic cycle even household names will be at risk to illiquidity.

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US: Social investing & leftist corporations

Examines how a highly organised and well-financed conglomeration of left-of-centre interests is using the capital markets to advance its political agenda, which is often hostile to the interests of shareholders. Full article has been made 'freely available' on request.

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[The Political Forum](#)

Negative bond yields: Catalyst for an inflation outbreak...at last?

Where excessive liquidity has been created a cash spending blowout is the biggest threat to price stability. The most important thing the ECB/BoJ can do is reverse domestic bond purchases to return yields back into the black (at least up to the inflation rate).

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[High Frequency Economics](#)

ECB and Trump will pressure Berlin to reduce export reliance

Germany's 'business model' looks unsustainable, with exports standing at 50% of GDP at a time when merchandise trade continues to decline as a share of global growth. The fallout is being underestimated by most commentators.

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[Entext](#)

Trump's latest picks may be just what the Fed needs

Fed suffers from groupthink, its members lack a feel for financial markets, not understanding inflation and the dual mandate it operates under is outdated. Article written by James Bianco, who was recently interviewed for a position on the Fed's Board of Governors.

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[Bianco Research](#)

UK: Manufacturing PMI woes

Indicator fell by two standard deviations in May and fell further in June. The fall and magnitude of falls are reminiscent of Q2 2008.

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[Ineichen Research and Management](#)

Tectonic shifts in FDI bear major implications for Asia

Combines a deep dive into the UNCTAD World Investment Report's latest data on FDI inflows with their own estimates of rates of return offered by emerging Asian economies to foreign investors to derive insights into future FDI trends.

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[Centennial Asia Advisors](#)

Beware global liquidity is rising

Large June rise in private sector liquidity may reduce odds or delay necessary US QE4. Not the backdrop for a weak USD. China's PBoC already easing again. World economy set to weaken further over coming months. Yield curves are beginning to steepen.

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Brazil: Bonds on fire

Bonds have been soaring recently and interest rate sensitive stocks have been responding. Favourable conditions suggest rates can maintain current levels, if not fall further. Estimates that Debt/GDP is now on a course to be stable at 81% for the next few years, while Debt Service/GDP can fall from the 7s to the 5s.

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Slowing global economy raises importance of currency movements

Another round in the Great Currency War looms. Yuan appreciation: An unintended consequence of central policy easing. Dollar's fate ultimately in America's own hands; looks at how the Fed's policy conduct in H2 will have a critical bearing on the ex/r.

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[DeSaque Macro Research](#)

Mexico: Minister of finance resigns; goodbye fiscal discipline

New Minister Arturo Herrera will face significant opposition to enforce the same rigorous fiscal discipline as observed in the first few months of this administrativo, particularly if (as expected) the GDP slowdown continues.

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Jump in gold price is a worldwide inflation signal

The recent rapid rise in the price of gold, to the extent it's sustained, is a global inflation signal. Hormuz is only part of the story. But unfavorable consequences of equities may take a year to be fully priced.

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Commodities

Crude Oil: Quality is key

Bearish US shale names exposed to high natural declines, ultra-light oil production, depleted acreage, slowing growth. Results will show a strong negative surprise re. oil mix; cash flow numbers to miss expectations.

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[Palissy Advisors](#)

Decades of moving towards multi-currency energy pricing coming to a head

It is a matter of national security for the world to move away from USD monopoly pricing on energy pricing BEFORE the US begins really printing the \$100T+ it owes in Entitlements, because if not, the price of energy for the world will skyrocket (as US exports USDs), sending oil significantly higher and crushing the global economy.

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