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Independent  
Research  
Forum

## The Cut - Edition 65

Introducing the very best of Independent Research from the  
IRF Providers

### Events

#### IRF Lunch with Andrew Hunt: The Dollar Recession

"Discontinuities in economics are relatively rare events, but over the last 12 months we have witnessed four such events as the 2017 dollar-funded global credit boom has come to an abrupt end". Global GDP growth is already zero in dollar terms and Andrew looks to what will happen next.

Lansdowne Club - 14th August at 12.30pm

[Confirm attendance](#)

[Andrew Hunt Economics](#)

[IRF Events Calendar](#)

### Company & Sector Research

— EUROPE

## Kering (KER FP)

Competition more concerning than compares. Correctly predicted slowing sales with recent channel checks showing traffic being significantly higher at LV (looking younger/more relevant) than Gucci; believes there is an increasing overlap in the customers of the two companies.

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## Ericsson (ERIC SS)

Share price has fallen heavily since downgrading to Sell. Reiterates their '5G air pocket' thesis with increased conviction. Current level of 4G spending is not sustainable; this decline will exceed the increase in 5G spending in 2020, impacting revenues and margins.

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## Philips (PHIA NA)

Underlying performance is weakening. Examines why management's margin target of just "shy of 14%" for this year is unattainable; results will disappoint investors.

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## Bell Food Group (BELL SW)

Promisingly positioned in Germany following the sale of the company's heavily loss-making sausage business. EV/EBITDA discount of ~35% vs. Orior is unjustified.

TP CHF 350.00 (30% upside).

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## — NORTH AMERICA

### Non-carbon intelligence

Now at the point where we require non-carbon intelligence that doesn't emulate humans, but creates new cognitive maps with deep reinforcement learning and generative design software. Most AI start-ups are vastly overhyped; highlights companies that will thrive, with immediate applications in manufacturing.

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### IPOs, index inclusions and the passive patsies

While the current North American IPO environment has a good deal of room to continue exploding higher, today's environment is as dangerous if not more so than the one that marked the peak of the internet bubble.

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[Kailash Concepts](#)

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## Canadian Energy: The darkness before the dawn

Compelling opportunities in both top-tier oil sands operators and producers able to deliver production growth as WCSB takeaway expands. Top picks: **Canadian Natural Resources** and **Cenovus Energy**.

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## Chemical sector: Sentiment survey results

Investors have a negative bias towards the sector. Larger cap/defensive names preferred. Favourite commodity chemical (long-side) is Chlor-alkali. On a macro level, no imminent recession anticipated and chemical stocks will perform very strongly when a US-China trade deal is reached.

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## American Airlines (AAL)

Wholesale management changes to occur? Opportunity for activist involvement with the company having significantly underperformed **United Airlines** and **Delta** in recent years. Other companies where strategic events offer significant upside: **DXC Technology**, **Celanese** and **LKQ Corp**.

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## Arista Networks (ANET)

Valuation too high for a hardware company; recent lumpiness is not an anomaly. Traditional players will respond with new products (400G opportunity) negatively impacting ANET. Questions ability to gain access/win share in the Campus vertical.

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## Dell Technologies (DELL)

William Scannell (President, Global Enterprise Sales) exercised and sold 178k shares and then sold an additional 113k shares, representing a meaningful portion of his holdings. This follows several other large sales recently, including both Karen Quintos (Chief People Officer) and Rory Read (Senior Officer).

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## Howard Hughes Corp. (HHC)

Real estate development. Previously highlighted how investors never really understood the business/misvalued the stock. Shares recently shot up ~40% on strategic review announcement; SOTP valuation (using distressed level cap rates) suggests further upside.

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## Intercontinental Exchange (ICE)

Expect annual revenue growth of 5.6% (to 2025E) with the biggest growth opportunity in providing financial data services. Significant competitive advantages; pricing power, defensible margins and attractive returns on capital will continue to strengthen in the years to come. 60-page report also examines industry dynamics, competition, regulation and disruption risks.

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## Lockheed Martin (LMT)

Turkey risk factor added to 2Q 10Q. Having previously downplayed the impact of the Government's decision to suspend Turkey's participation in F-35 program, this added risk factor suggests much more internal management concerns than its public comments.

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## Micron Technology (MU)

Correctly predicted the May earnings call would be a 'positive catalyst', expecting the stock to 'return to the \$40 levels'. Stock has since climbed 45%, but now believes risk/reward is unfavourable; supply constraints don't make up for a weak demand environment.

Recent ideas include: Bullish **Advanced Micro Devices**. Bearish **Qualcomm**.

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## Perspecta (PRSP)

IT services. Navy contract (NGEN) risk way overblown, well positioned to at least gain a share of the spoils. Trades at ~9x consensus 2019 EBITDA (vs 13-15x for peers). Favourable industry backdrop and possible acquisition target. 60% upside.

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## The RealReal (REAL)

Significant potential for this re-sale business following a successful IPO; has created both a revenue stream for shoppers and a value proposition at the same time. Appeals to Millennials/Generation Z, provides an entry point to luxury brands and is an alternative to fast fashion.

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## — Japan

### Takeda (4502 JP)

Significantly undervalued vs global peers. Flagship drugs can compensate for near-term patent expiries. Core operating margin greatly enhanced following Shire takeover; 40% increase in earnings, sustainable over 3-4 years post integration. Non-core asset monetisation opportunity worth \$10bn. TP ¥6000 (60% upside).

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## — Emerging Markets

## Sberbank (SBER RM)

The stellar fundamental momentum previously seen is now deteriorating. The PH Score™ captures qualitative trends underway and a rating of 3.9 today is decidedly subpar. This compares with a 9 when they published a (bullish) report last year.

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## Page Industries (PAG IN)

Clothing retailer. Report provides key takeaways from interaction with distributors in Gujarat; insights from visits to the company's exclusive brand outlets (EBOs) and an interview with an ex-EBO store manager.

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## GEM portfolios: Financials increasing dominance

Allocations within GEM active fund portfolios close to record highs. BRIC nations dominate. **Sberbank, Ping An Insurance, AIA, HDFC Bank and ICICI Bank** all held overweight. Underweights include: **China Construction Bank, Bank of China, Axis Bank and Banco Bradesco.**

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# Macro Research

## — Developed Markets

### UK: Diary to an Election

A General Election is becoming more likely, but would have to be called by 10th September, with the Labour Party confirming there will be no vote of no confidence in the new Prime Minister as they take office just ahead of the summer recess.

[Click here](#) for access to the (freely available) article.

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[Blonde Money](#)

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### US: Why is the FFR > IOER?

There are not enough reserves (USD's) in the banking system to finance US government deficits without help from the Fed. Requires significant USD liquidity injections until the dollar drops enough to attract the marginal foreign private sector UST bid again.

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### US: Core inflation picks up, will wrong-foot bond investors

Strategist, Prajakta Bhide, reiterates non-consensus view on consumer price inflation; expects core CPI/PCE of ~2.5% by mid-2020. The last time Prajakta leaned heavily against the consensus was in late-2017, just before investors were surprised by the sharp rebound.

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## Japan: Recession risk elevated

Increased stimulus will not boost economic growth and with other major central banks easing policy, the BoJ will be unable to significantly weaken its currency. The economic outlook hinges on the speed of global trade growth, but this will continue to deteriorate in the coming quarters, resulting in a recession.

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## Global industrial production growth picks up

Production grew by 1.0% MoM in May; the fastest pace since July last year. However, this was not enough to dissuade central banks that recession risks are rising due to global trade tensions, these not being limited to Trump's tariffs.

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## US: Fed easing cycle much more likely than insurance cuts

The US fixed income market always underprices the speed and degree of the Fed's easing cycles, by orders of magnitude. Believes the "insurance cut" narrative is misguided.

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[Rareview Macro](#)

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— **Emerging Markets**

## Turkey: Bank stress & BOP adjustment

Explains why the country's banks are key to the durability of the BoP adjustment and revisits their previous bank stress test to show how things are evolving and how much buffer they have to withstand the bad loan cycle. Remains bullish re. rates, FX and bank equities.

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## Saudi Arabia: MBS must provoke a US/Iran war

The revolution in Sudan threatens Mohammed Bin Salman because without a flow of Sudanese mercenaries, he loses in Yemen. A 2020 Trump win means no impediment to increasing US oil production. If the Saudi crown prince wants to become king, he needs to provoke a US/Iran war before his time is up.

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## Mexico: Constrained populism

The country has moved towards recession since AMLO's election, driven by external factors. On the negative side, the Presidency has been marked by odd investment decisions, but he has been fiscally sound and Banxico has remained independent. Sees scope for significant monetary easing in 2019-20 (200bps).

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## China: Proprietary credit data analysis

Q2 saw much more targeted policy support with corporate borrowing flat or lower in every sector, but the real story was preferential access: Manufacturers had the highest borrowing nationwide, yet paid the lowest costs, while firms in high-profile regions obtained credit far more easily than others thanks to rejection rates only 1/3 as high.

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## China: Furniture sales plummet

Sales have now contracted on a YoY basis for eighteen straight months. This fall is pointing to much greater weakness existing in the Chinese housing market than most investors appreciate.

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## All things Russian

Recent analysis includes: National Wealth Fund to be used for credit? Would be unprecedented if so. Constitutional amendments being considered (transfer of some president prerogatives to Parliament). Foreign policy: Cosying up to Iran, tension building with South Korea and Ukraine conflict de-escalating.

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# Commodities

## LNG: The biggest deflation story

Capacity race at what is widely perceived to be the bottom of the cycle. The market is only just waking up to how bad this is for the majors, but this is not seasonal and it is not the bottom, it is the formation of a new lower cycle.

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## Grains: Bear market is over

Accurately predicting market movements yet again. Previously warned of the imminent end to this bear market several times in Spring, culminating in a report (8 May) highlighting three commodity indices that were all making bottom extensions. Favoured long is wheat, also bullish corn.

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