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Independent
Research
Forum

The Cut - Edition 66

Introducing the very best of Independent Research from the
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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. **LAST CHANCE TO BOOK A PLACE**

Lansdowne Club - 14th August at 12.30pm

[Confirm attendance](#)

[Andrew Hunt Economics](#)

[IRF Events Calendar](#)

Company & Sector Research

— EUROPE

Aryzta (ARYN SW)

Time to re-short this food company? Explains why the equity value now equals the divestment value of **Picard**. At least 70% downside. Previous analysis centered around the company's accounting, aggressive acquisition strategy and excessive debt. Closed the position following the rights issue announcement.

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[TT Equity Research](#)

Equinor (EQNR NO)

Production will surprise to the upside. Deploying three world-class technologies to mitigate Johan Sverdrup's decline rates (this is based on reviewing c.115 company patents and dozens of technical papers); can unlock an incremental \$3-5bn of value from the oil field.

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[Thunder Said Energy](#)

Ferguson (FERG LN)

Plumbing & heating products distributor. Dominant US market share and opportunity to consolidate a highly fragmented market. Trades at a deep discount relative to peers despite double-digit revenue growth, clean balance sheet and strong FCF. LSE listed, but this could change...activist investor now involved!

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[Thompson Research Group](#)

Intu (INTU LN) & Hammerson (HMSO LN)

Through applying a required return methodology, reduces INTU's NAV to zero, with implied leverage sitting at an eye-watering ~90%.

Same methodology reduces HMSO's NAV to 440p (vs 550p company-reported). The current price represents a ~50% discount and ~9% implied unlevered return; sees compelling value at these levels.

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[Green Street Advisors](#)

Sandvik (SAND SS)

This engineering company has seen a transformation of margins and sharply reduced cyclicity. Explains why management's trough EBIT margin of 16% is credible.

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[Willis Welby](#)

Vodafone (VOD LN)

Following the TowerCo announcement, upgrades TP to 195p and explores which other operators have the most to gain by following suit; **Orange** is highlighted.

Remains bullish **Altice**; share price shot up over 20% on earnings release (+100% YTD); believes these results provide a positive read across for **Iliad**.

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[New Street Research](#)

— NORTH AMERICA

Healthcare: Short Options Aplenty

Coverage this year alone includes: **Amarin Corp**, **Cantel Medical Corp**, **Dentsply**, **Globus Medical**, **Medidata Solutions**, **Premier** and **Syneos Health**.

Have seen several names initiated on, from various sectors, tank after recent quarterly earnings releases including: **Merit Medical Systems** -25%, **Belden** -19%, **Energizer** -14.4% and **SNC-Lavalin** -9.4%.

(% fall on day of/after earnings release)

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AbbVie (ABBV)

Upgraded the stock following multiple 'insider' transactions after the proposed merger with **Allergan** was announced. 'Stock Rank' increased again as Roxanne Austin has just become much more aggressive (buying 65k shares at \$66) alongside Henry Gosebruch (first first purchase since selling shares at \$90).

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[Smart Insider](#)

Apache Corp (APA)

2Q 10Q 'change of control' definition modified within this oil & gas explorer's executive compensation plan. Considers this to have been prompted by either external acquisition interests or the company's desire to sell itself.

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FactSet (FDS)

Highly competitive environment and far too expensive given current growth rates; organic ASV growth has slowed to only 4-6%. Headwinds from secular pressures on buy-side clients and step-up in client cancellations recently. Prefers other information services stocks: **Moody's**, **S&P Global**, and **MSCI**. TP \$225.

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PayPal (PYPL)

Significant opportunity for bulk network effects from marketplace partnerships, including **MercadoLibre**, and for leveraging **iZettle** to extend the franchise of both PayPal and its marketplace customers from online to offline. Raises TP to \$130.

Recent coverage also includes: Why the anti-trust path to **Facebook** leads through **Visa** and reasons to remain bullish **Wells Fargo**.

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Pool Corp (POOL)

Missed earnings and revenue expectations. Channel checks indicate US YoY sales for June saw just 2-3% growth (guidance for FY is mid to high single digit growth). Anticipating a significant decline in the growth rates for replacement pool products.

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Urban Outfitters (URBN)

Favourable fashion cycle; while they struggled this Spring adjustments have now been made and historically when the company has the fashion right, the stock has done very well. The recently announced launch of a rental business could prove to be a shrewd move too.

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[The Retail Tracker](#)

— Japan

Video Game Stocks: Rankings Update

Top spot goes to **Nintendo**: Switch Lite, expected launch in China, growing handset-related revenues and a strong FY19 game line-up. **Nexon**: takes second place: <10x FY19 EV/OP and that is without Dungeon & Fighter Mobile which will boost revenues from FY20. **Square Enix** completes the top three.

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[Pelham Smithers Associates](#)

Otsuka Holdings (4578)

Correctly predicted the recent upward revision to FY guidance. Well-established AD franchisee to drive top line and earnings over next 3-5 years. Current price levels imply zero contribution from AVP-786 (Ph III data due in 4Q). TP ¥7,000 (75% upside).

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[Pathology Associates](#)

— Emerging Markets

South Africa: Eskom

Examines implications for creditors, providing full analysis of recent events including company results, CRO announcement and future funding. No turning point possible without a 'real' unbundling that removes political pressure, monopoly instincts and a slashing of debt service costs.

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[Intellidex](#)

India: Bharti Airtel (BHARTI)

Bonds still offer good value. Originally initiated on expectations of improving balance sheet health for this telecoms company as a result of the African unit IPO. Sentiment currently favours low investment grade credits.

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[Bondcritic](#)

China: Long Alibaba, Pinduoduo & Momo

2Q China eCommerce GMV growth re-accelerated at Alibaba, **JD** and Pinduoduo on strong 6.18 sales and solid execution. However, China's online ad spending slowed without much 2019 overall budget growth. Recent primary research covers: Alibaba, JD, Pinduoduo, Momo, **Vipshop**, **Baidu**, **Tencent**, **Weibo** and **iQiyi**.

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China: Positive trends in Autos & Elevators

Even more positive on Autos than three months ago. Demand is not as bad as headline data suggests. Preferred names in Europe: **Aptiv** and **Valeo**. US: **Lear** and **Ford**.

Property construction activity accelerated sequentially, leading to better than expected Elevator orders. Top picks: **Kone** and **United Technologies**.

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Macro Research

— **Developed Markets**

Has the US Stock Market Peaked?

Recent BEA revisions showing drops in equity profit margins, along with Beijing's confidence, indicate that we shouldn't dismiss the steep decline in US equity markets as another trade-war related correction.

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[GFC Economics](#)

New Zealand: Small Country, Large Implications

RBNZ cuts rates 50bps to meet dual U/E and inflation objectives, the largest 'emergency style' rate cut from a DM bank this cycle. Emergency cuts in other CBs may follow and close up consumer wallets over fears. Even if the FX channel strengthens, the weakened consumption transmission channel will ensure further RBNZ cuts. The CB world has become more worrisome.

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Germany: Labour Market Developments

As unemployment edges up, the ease in the country's outperformance will be good for EMU stability as it helps moderate hawkish voices within the country.

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German Stockpiling

German inventories remain as high as ever since the GFC. Auto inventories have accelerated with no sign of stopping. Euro data improvements have been little more than a reflection of the massive inventory cycle.

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UK: No Confidence

The government is rumoured to be considering an October budget. Such a move would be a de facto No Confidence Vote and one in which the government is in charge, rather than succumbing to on the back foot.

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[Blonde Money](#)

Japan: Older & Poorer

The country's retirement crisis is largely misconstrued as an issue of profligate spending. The reality is that demography and adequacy are to blame. Japanese firms are cutting back pensions as the government ponders raising the benefit-eligibility age. Citizens clearly need to save more for retirement.

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Aussie Housing

The stop in falling house prices won't prevent a recession. A sharp rise in the household savings rate will make a recession likely and falling employment will reverse the house price trend downwards regardless of RBA policy. There will either be a recession or sub-par growth, with a weaker A\$ and further policy easing.

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— Emerging Markets

India: Messy Transition

Premiums for Indian equities appear less rational as growth slows down. Decline in equities symptomatic of market tipping points as low earnings growth outweighs easy monetary policy and lower bond yields.

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Hong Kong Aggression

It may be true that China needs to hold the Yuan at 6.80-7.00 to stem capital outflows, but the PBoC will not hold the Yuan stable if nations curtail investment and reduce current liquid investments in response to aggression in HK.

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[Rareview Macro](#)

China: Banking Worries

All is not well with China's banking system. Two banks have been bailed out and twenty are late in publishing annual reports. Unfortunately for the central government a large increase in lending is still needed to stabilise the economy.

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Commodities

Floating Wind on Verge of Lift-off

Floating Wind platforms will begin to deliver multiple Gigawatts of electrical power by 2024 and will accelerate to as much as 18.9 GW of capacity by 2030. Report examines where these platforms will first take off, risks/rewards, impact of new technologies and predicts the winners/losers in the sector.

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[Rethink Technology Research](#)

Oil's Hyper-sensitivity

The big question is whether China imposes a 25% tariff on US crude; fear over such actions alone has crushed Chinese US crude imports to zero from 378,000 b/d. If Beijing goes ahead, what will happen?

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[Vanda Insights](#)

Gold Haven

Investors are favouring ETC's, using their high liquidity and lower relative costs to lower portfolio risks. Flows into exchange traded precious metals reached \$9.7bn in June, the highest since 2016, with the bulk going into gold.

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