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Independent
Research
Forum

The Cut - Edition 67

Introducing the very best of Independent Research from the
IRF Providers

Events

IRF Dinner Event with Whitney Baker

Emerging Markets: Investing At the End of the Cycle - With historically wide divergences between EM and DM economies, cyclically narrow BoP imbalances and the best external balance sheets these countries have ever had, how will EMs do as the world slows?

Edel Assanti Art Gallery - 18th September at 6.30pm

[Confirm attendance](#)

[Totem Macro](#)

IRF Presentation with Jim O'Sullivan

US Outlook - Just a 'mid-cycle adjustment' for a mid-cycle slowdown, or a major turning point for both Fed policy and the economy?

Lansdowne Club - 20th September at 10.00am

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[High Frequency Economics](#)

Company & Sector Research

— EUROPE

Cellnex Telecom (CLNX SM)

Tower business now trades on 25x EBITDA - highest in the world and a +24% premium to **Inwit** (upgraded to Buy). Long term tenancy pressures as MNOs use network sharing to cut cost. To justify current price they would need to double the existing business - a highly unlikely scenario. TP €24 (33% downside).

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[New Street Research](#)

Novartis (NOVN SW)

Recent impressive performance is just the beginning. New products have yet to enter cash cow status. Pharma margins will hit 40% and R&D engine will continue to deliver. Forecasting EPS growth of 61% over the next 5 years.

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[Intrinsic Health](#)

Spectris (SXS LN)

Concerns over earnings quality as well as revenue recognition issues; EBIT margin forecasts for FY19E 300bps below consensus. Anticipating additional

goodwill impairments going forward and questions remain re. the company's remuneration policy. Shares have already fallen c.15% since call initiated.

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[StockViews](#)

FTSE Top 200 Bulls & Bears Model

Technical research consultancy Provider. Impressive performance continues, currently has 38 (Long) open trades with an average gain of 7.5%. Recent additions include: **AstraZeneca**, **BAE Systems** and **William Hill**. 17 Short trades average gain 15.2% and include: **Glencore**, **RBS Group** and **Weir Group**.

Other Models available including: Europe Top 200, Europe Mid Cap and S&P Large Cap.

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[Stockcube Research](#)

GrowthRater: An interactive equity research and valuation service

Exploring the systematic relationship between the growth delivered by a company and the growth rate priced into the stock by markets. An example covering **ITV** as been made freely available [here](#).

Further information on their GrowthRater can be found [here](#).

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[WYT](#)

— NORTH AMERICA

BTS Sales Growth Forecast Highest in 8 Years

Forecasting 5.1% BTS sales growth with consumer spending seen accelerating from early year weakness. Digital sales will again pace BTS, while big-box discounters and Health & Personal Care retailers will lead merchandise categories. Department stores will lag badly. 46-page report includes leaders, laggards and turnaround candidates.

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[Customer Growth Partners](#)

Blackberry (BB)

Recent management meetings reinforces view that this stock is significantly oversold. Acquisition of **Cylance** (AI-based cyber security; now 20% of sales) is a game changer. New product releases to prove a catalyst along with healthy top line performance.

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[Cross Research](#)

CBS (CBS) & Viacom (VIAB)

Merger has created a \$30bn content behemoth, so why is it that younger companies with fresher ideas look better positioned? ViacomCBS needs to shift the deadwood if it wants to stay afloat and must embark on an aggressive acquisition streak, rolling up emerging media firms making waves in the OTT video space.

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[Rethink Technology Research](#)

Chart Industries (GTLS)

Sell off provides a unique opportunity ahead of a period of significant EPS growth. Price of natural gas will continue to decline and truck manufacturers will offer an increasing number of LNG enabled engines. Infrastructure potential too (fuelling stations).

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Foot Locker (FL)

Channel checks. Bucked the softer monthly trends seen in the majority of other companies they follow. Q2 comps to be ahead of consensus (+4-5%).

A separate report covers Key Athletic Footwear releases and highlights the fact that sell throughs remain weak, but there are signs of life for Jordan Retro's.

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[Mosaic Research](#)

Mylan (MYL)

Provides full analysis of the Mylan/Upjohn (**Pfizer**) merger and believes the pair trade (Long Mylan, Short **Teva**) continues to offer significant upside; deal puts them in a much stronger position to return capital shareholders.

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[AlphaSituations](#)

Novocure (NVCR)

Advancing Phase 3 Pipeline (four trials). Increasing acceptance of Optune as a complementary novel therapy. Medicare coverage of Optune for newly diagnosed GBM. FDA approval to treat MPM. Improving cash flow. Initiated at \$19.90, current price \$90; TP 1yr: \$120, 3yr: \$300.

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[Costigan Reports](#)

Splunk (SPLK)

The core search and analytics business is being increasingly challenged by vendors who are attacking their pricing model with a variety of solutions. Challenges from **Google**, **Exabeam** and **Elastic** are getting more attention and are starting to have a greater impact on the market and specifically on Splunk.

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[Sales Pulse Research](#)

VMware (VMW)

Highly significant acquisition; **Carbon Black** + AirWatch + **Dell** distribution = formidable combination. Dell at some point will package CBLK on every desktop it sells. Highlights other acquisition targets; expects them to become a security platform that will transform the industry. TP \$200 (33% upside).

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[Summit Insights Group](#)

Wells Fargo (WFC)

Will emerge as a leader in the effectiveness of digital engagement (as they were for years re. the effectiveness of branch engagement). The end-result to be a vastly improved sales model with less regulatory risk. TP \$65 (44% upside).

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[RenMac](#)

— RoW

Turkish Banks: Far too Cheap

Continues to be very bullish having initially taken advantage when investors wrongly priced the banks for total collapse. Lira devaluation is over and if (as expected) CPI falls to 10-15%, P/E's will expand by +50%. Upgrades price targets for three banks: **TSKB** (163% upside), **Yapi Kredi** (76%) and **Akbank** (39%).

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[Churchill Research](#)

China: The Expansion of Chain Restaurants

With the application of mobile payment, the number of restaurant locations for top Chinese food brands has surged in recent years as direct management has become easier. Centralised food manufacturing is a must for chain restaurants. **Anjoy**, **Sanquan**, **Sichuan Teway** and **Yihai International** are well placed to benefit.

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[Horizon Insights](#)

Beijing CIA (694 HK)

Strong Chinese air traffic growth; impact of Daxing airport (opening Oct) to free up more profitable international slots. New duty free contracts close to doubling retail revenue. Prospects for new 4th terminal and runway offer further upside. TP HK\$14 (+100%).

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[Insight Investment Research](#)

Asian Banks: Worsening Credit Metrics

Benign bad loan trends belie surging impairment costs. It is no longer sufficient to rely on the NPL outlook when forecasting impairment costs. Has serious concerns re. banking systems particularly in Hong Kong and Japan; **HSBC** and **DBS** also covered.

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[Tabbush Report](#)

Macro Research

— **Developed Markets**

US: Poor Defence

Despite popular belief, defence may not power through a recession. If prospects for Trump's re-election dim, federal deficits grow, popularity rises for non-defence spending on higher multiplier projects, and a new administration increases scrutiny of contractor returns and capital deployment, the sector could struggle.

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Corporate Credit: Risky Business

Evidence of global corporate credit stresses is mounting, high-yield bond defaults are rising and illiquid bond performance has tanked. Further up the credit food chain, investors are on red alert for triple-B cliff risk. A new corporate default cycle is unfolding and central banks are powerless to prevent it.

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Canada: Trying to Buck the Weight of Uncertainty

Canada's strong search trends in consumer and commercial services explain differences in USDCAD's fair/actual values. The impressive results will mitigate uncertainty surrounding the USMCA.

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[Arbor Research](#)

South Korea: A Sick Canary

The country is in 'global deflation territory'. Historically, >6% declines in YoY Korean export USD prices have been met with global deflation scares. Sector

data is 'crisis like'. If the country is a canary in the global economy, things look troubling.

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[Andrew Hunt Economics](#)

Risk Assets vs Safe Havens

The battle between risk assets and safe havens continues as the latter disproportionately benefits from the global policy pivot. Yet risk assets show zero signs of outright capitulation. This stalemate will surely prove fleeting as the battle between a slowing global economy and an increasingly aggressive global monetary policy pivot plays out.

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[Topdown Charts](#)

German Troubles

The index of current conditions crashed to -13.5 (-11.1 in July) and index of investor and analyst expectations plunged to -44.1 from -24.5. Readings reflect troubles not seen since the Global Financial Crisis.

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— Emerging Markets

Brazil: State Fiscal Problems

New pension reforms retain privileges for teachers and police personnel, who account for the majority of state government expenditure growth on personnel expenses. The pension reform does little to address the grave fiscal situation of the states.

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Prospects for a Greek Recovery

New government has slashed corporation tax by 4% and property tax by almost a quarter on average. Red tape in labour laws has been cut. As the jobless rate has fallen to a cyclical low of 17.2% in May; the reforms come as the economy embarks on a recovery.

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Argentine Correction

Credit default swap spreads exploded in response to the populist Alberto trouncing incumbent president Macri in first round elections. Yet the underlying factors were monetary; the crisis is but a correction after plummeting liquidity.

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South Africa: Reform Tracker

Sentiment will not be turning any time soon. Whilst the reform agenda has been laid out, progress has been painfully slow. Some small wins have been achieved

below the surface, but not well publicised and offset by disappointments elsewhere.

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[Intellidex](#)

China: Previous Easing

New Chinese indicative 1-yr bank lending rate (LPR) set at 4.25% (10bp below current official lending rate). Don't be fooled, this isn't a fresh easing, but more of an effort to guide previous easing through the rest of the economy.

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[Suttle Economics](#)

Macau's Resilience

In the face of a softening Chinese economy and Hong Kong protests Macau is proving resilient. Gross Gaming Revenues holding up better than expected although visitation growth is already slowing. Upcoming anniversary celebrations could pressure the VIP segment.

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[Hedgeye](#)

Commodities

The Plastic to Oil Revolution

Next-generation technologies can turn mixed plastic waste back into oil and are nearing technical readiness. Opportunities of >30% IRR's and could displace 8-15mil/bpd of future oil demand.

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[Thunder Said Energy](#)

(Not so Solid) Gold

Gold's fair value has only been pushed up due to falling bond yields, unchanged volatility and weaker base metals. Given the substantial overhang of speculative long gold exposures, a correction in gold could prove violent and severe.

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