

IRF Presentation with Jim O'Sullivan - US Macro

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](#)

[IRF Events Calendar](#)

Company & Sector Research

— EUROPE

Distressed

Opportunities:

Intralot

Consumer Discretionary

Raising sufficient liquidity to allow a refinancing of its short-dated notes, if it (or its banks) can buy enough of the long-dated notes in the market at deep enough a discount. Trading pattern in the long-dated notes suggests this is under way, making both notes attractive at prices of 75 and 50 c/€ respectively.

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[Sarria Analysis](#)

AstraZeneca

(AZN

LN)

Healthcare

Top pick in their EU Pharma coverage. 2024 sales upgraded by \$3bn - 10% ahead of consensus; \$15bn of potential sales excluded from these forecasts. Quality of EPS has also significantly improved. TP £100 (30% upside).

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[Intrinsic Health](#)

Aveva

(AVV

LN)

Technology

Stock trades at c.30% premiums on 2021e P/E and EV/EBITDA, despite slower top line growth and lower margins than peers. Digitalisation theme to take longer than most expect - any boost to oil & gas capex unlikely over medium term. FV at 2500p (35% downside).

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[Sharp Equity](#)

Dixons

Carphone

(DC

LN)

Consumer Discretionary

Featured in the daily email briefing written by Nick Bubb, on the UK Retail sector and company developments. Given the difficult background for big-ticket retailing and mobile phone retailing in addition to big investor revolt over Director pay, how has the company avoided another profit warning?

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[Bubb Retail](#)

JD

Sports

(JD

LN)

Consumer Discretionary

Primary research and analysis of Finish Line shows that a turnaround will be much more challenging than the market or consensus is prepared for. Furthermore **Nike's** growth in direct to consumer should be a worry. In the UK rising inventory and a record number of SKUs on sale in 2019 points to saturation and an eventual normalisation in returns. 35% downside.

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[StockViews](#)

— NORTH AMERICA

Short Sellers' Low Quality Signal (LQS)

A loss avoidance aid for short sellers of low quality firms. This timing flag has proved to be a powerful risk mitigation and performance enhancing tool not just for the Trading Shorts they publish, but across all their short models. A decade of real-time performance is a non-trivial period for a signal to prove its mettle.

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[Kailash Concepts](#)

Industrial Distribution: Price Realisation Index Inflects to Negative Territory

Industrials

The Index gauges distributors' 'ability' to pass-through inflation; it fell over 30% from average Q2 levels, to the lowest levels since they started their Pricing and Competition survey. Margin pressure to continue going forward; **Fastenal** and **W.W.Grainger** highlighted.

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[Northcoast Research](#)

General Electric (GE)

Industrials

Provides leading financial disclosure indicators which their analysts and researchers have been tracking over several years. Findings include detail of GE's financial restatements, high turnover of C-level employees and shareholders voting against ratification of GE's long-term audit firm through a thorough and unforgiving 175 page report.

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[Audit Analytics](#)

GoDaddy (GDDY)

Communications

Very attractive risk/reward for a high quality subscription business that has the ability to gain market share. Double digit organic growth over the next 4 years with improving margins and sustainable 15-20% Y/Y FCF growth, yet trades at a 5% FCF yield.

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[Abacus Research](#)

Madison Square Garden (MSG)

Consumer Discretionary

Jonathan Boyar writes an open letter to James Dolan where he discusses what he believes should occur at the company to help unlock shareholder value. Forbes article is available [here](#).

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[Boyar Research](#)

Roku (ROKU)

Communications

As a platform/aggregator of streaming services, they are ideally placed to capitalise on the ongoing decline in linear television. Very early stages of monetising their 30m (and growing) active users. Company will beat consensus estimates. TP +\$200 (in next 12-24 months).

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[Hedgeye](#)

Tapestry (TPR)

Consumer Discretionary

Analyses of text changes in 10Qs/10Ks offer unique insights into management intentions and company internal projects. For example, recently highlighted TPR's disclosure on a new special severance plan in the event of a change in control - believes this was prompted by acquisition interest.

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Universal

Display

(OLED)

Technology

Disruption cycle is only just beginning, driven by rapid adoption of OLED technology (market leader). Projects +46% CAGR in revenues and +70% in EPS out to 2021. Initiated at \$84, now at \$200; 1yr TP \$250, 3yr \$425.

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[Costigan Reports](#)

VF Corp (VFC)

Consumer Discretionary

Expecting upgrades to guidance this year. Strong outlook (especially Vans), while The North Face acceleration and higher direct to consumer mix supports EBIT margin

expansion. Significant discount to peers and additional capacity for large scale M&A.
TP \$98.

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[WhiteSand Research](#)

— Japan

Nippon **Shinyaku** **(4516)**

Healthcare

Uprtavi's brisk global uptake and overseas royalty income to drive industry leading revenue growth over next 3-5 years. Next phase growth drivers include: NS-065 (for Duchenne muscular dystrophy) and NS-018 (for Myelofibrosis).

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[Pathology Associates](#)

PALTAC **(8283)**

Healthcare Facilities & Svcs

Short term negative factors impacting 1Q earnings have created an opportunity to own Japan's #1 wholesaler, a ruthlessly efficient one-stop shop middleman bent on raising automation & lowering costs.

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[Storm Research](#)

— Emerging & Frontier Markets

China: E-cigarette Supply Chain Research

Industrials

Examines the market potentials, industry leading players and competition landscape. Favours **Smooore** - technology edge in atomiser core and its backing company, **EVE Energy**, a leading Chinese lithium battery maker.

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[Horizon Insights](#)

Havells India (HAVL IN)

Industrials

Is Lloyd turning out to be a bad apple? Havells acquired the company with the objective of penetrating deeper into consumer homes with Lloyd's products, but the reality is that their competitive position is extremely vulnerable to both premium and mass players entering the market.

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[ASA Capital](#)

Zenith Bank (ZENITHBA NL)

Financials

Interesting disconnect as their dollar bonds are doing extremely well, but the stock is down heavily, trading at just 3x earnings. ROE averaging ~20% since 2012 and double digit dividend. The balance sheet is incredibly strong, so rise in NPL is not an issue. TP NGN 44.19 (145% upside).

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[Churchill Research](#)

Macro Research

— Developed Markets

The Brexit (not so) Merry Go Around

A further extension of Article 50 and another general election may seem now inevitable, but it will merely be a delay and offers little clarity. Economy to continue to suffer. Continue to believe the market is under-pricing the risk of a hard Brexit. Remain short sterling; target \$1.10.

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[Independent Strategy](#)

A European Style Coalition Government?

The Conservative rebellion, which include the ex-Chancellor, could be instrumental in reaching a cross-party alliance that can persuade businesses to back a coalition that will disregard Brexit.

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[GFC Economics](#)

UK and Germany in Trouble

Relative softness in domestic orders and a falling German PMI (46.3 in Aug from 49.5 in July) suggest that Germany and UK may have entered recessions mid-2019. PMI data appears concerning – a series that has been resilient since the 1950's is plunging.

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A US Recession Soon? Nope!

Overwhelming consensus of an upcoming US recession driven by the recent yield curve inversion is incorrect. The inversion highlights an impending fiscal crisis requiring Fed injections as the US faces the aftermath of crowding out debt markets and its own banking system.

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US Equities for Sale!

If investors want to prevent the negative effects that a trade war between the US and China could have on US equities, they may be forced to sell them. This could be one of

the few ways they have of getting President Trump's attention. Models at or close to maximum underweight in equities.

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[Harlyn Research](#)

Risk On, Baby

B of A's Bull & Bear indicator is flashing a contrarian signal unseen since January. The indicator has a solid track record of predictions; since 2000, global stocks rose a median 6.3% in the three months after a buy signal, with treasury yields up by 50 basis points.

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New Zealand, Older Issues

NZ data continues to soften despite rate cuts. Confidence and activity falling; weaknesses in employment and U/E rates; profits declining. NZD to weaken further vs USD and AUD; rates to be eased towards zero sooner rather than later.

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— **Emerging & Frontier Markets**

EM Weaknesses going Unnoticed

Dismal EM growth is being driven by a failure to implement structural reforms post-GFC. China, the main culprit, is unable to stimulate their way back to strong growth in the absence of a hard budget constraint. Global economy at risk of jeopardy if trade tensions remain unresolved.

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China's Five Options

Continue with a damaging domestic recession that will continue to suppress global growth; debt default; a damaging (for the world & China) repatriation of its foreign assets; collapsing its currency; or 'surrendering' in trade talks in order to secure more USD funding for its banks.

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China Flash Data showing Significant Weakness

New flash data with an early look at 1200+ firms shows a much more challenging environment emerging in Q3, especially for manufacturers. Even the jobs market, steady through 2018/19, is not immune to recent trade tension escalations.

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[China Beige Book](#)

Trade War causing EM Differentials

Trade war the key driver of equity performance differentials of between EM countries and bifurcation of currency performance, with nations exposed to China's cyclical growth dynamics most affected. Money flows show usual relationship between Fed easing, USD and EM asset performance still intact.

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Argentina: A Prophecy of Gloom

Argentina has slipped towards its fifth discrete sovereign default. Debt restructuring in 2020 will require a move to a current account surplus. Argentina is the highest casualty of too-low DM rates; there will be others.

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Amazon Fires

Divestment movement sparks in response to insufficient government attempts to stop Amazon fires. Despite insignificant direct impacts on firms, the reputational risk is real and could be major if the EU-Mercosur deal fails; with the government looking to sell state-owned assets, the current spotlight isn't good news.

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Hiking in Kazakhstan

NBK to be forced to hike rates this autumn in response to risks on global commodity markets and inflationary pressures stoked by expanding domestic demand.

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[Emerginomics](#)

Commodities

Watch Gold Price, Not Bonds

The extreme decline in bond yields conflicts with gold's rising price and is unlikely to persist. Gold is approx. 25% higher than two months ago yet bond yields have declined - these moves are inconsistent.

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Shale for Sale

Even at \$50/bbl, US shale can surpass 20Mbpd of production by 2025, while generating \$300bn of cumulative FCF, but productivity gains are crucial (must compound 8% at well level and 12% at rig level) in order to meet forecasts.

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[Thunder Said Energy](#)

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