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Independent
Research
Forum

The Cut - Edition 69

Introducing the very best of Independent Research
from the IRF Providers

Events

IRF Lunch with James Ratzer & Andrew Entwistle - 5G: is this the biggest disruption in telecoms since the dotcom bubble?

"5G is one of the most hyped terms in telecoms in the past few years. But what does it really mean? Is it really the elixir on the road to autonomous driving? Will it allow wireless operators to compete with wireline operators for broadband? Will it mean we will live in a permanent sea of electromagnetic radiation? And will the telecoms operators actually make any money out of it?"

Lansdowne Club - 3rd October at 12.00 noon

[Confirm attendance](#)

[New Street Research](#)

IRF Lunch with Luke Gromen - US Macro

"A USD shortage in the US' own banking system will force the Fed to inject new USD liquidity with equities near the highs and unemployment at 60-year lows. The Fed will have to cede control over the quantity of money to control the price of money...but will they do so fast enough and how much political cover do they need?"

Lansdowne Club - 4th November at 12.00 noon

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[FETT](#)

Company & Sector Research

— EUROPE

Infrastructure: Not Pricing in Utopian Super Low Bond Yields

Increasingly attractive equity valuations relative to an extraordinarily low cost of capital. Offers low volatility, inflation and GDP linked free cashflows at a high return premium to sovereign and corporate debt. Top picks include: **Ferrovial**, **Atlantia** and **Getlink**.

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[Insight Investment Research](#)

Auto Trader (AUTO LN)

Communications

>\$5bn M/cap, AD\$V >\$35m, SI <3%. Dominant European digital marketplace that has already seen growth slow, yet still trades at lofty multiples. The company faces intense competition from **CarGurus** and **Heycar** entering the UK market in 2019 with more compelling offerings at lower prices.

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[Vision Research](#)

Ericsson (ERICB SS)

Technology

Recent gross margin pressure to last for longer than consensus expects. Compares the situation to the transition from 3G to 4G, when the company was negatively impacted from “modernisation deals” - to reclaim lost market share. Management can not control end market and competitive dynamics.

[Adnaan Ahmad Research](#)

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United Utilities (UU LN)

Utilities

Worrying trend in executive transactions. CEO sells 41,000 shares at £7.70, reducing holdings by -37% and CFO sells 7,700 at £7.64, reducing holdings by -15%. Both are selling at lower price points than where they sold in June and have made meaningful reductions in their holdings over the past three months. Stock ranking -1 (lowest rating).

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[Smart Insider](#)

— NORTH AMERICA

Aerospace & Defence: Future Prospects

Explores whether the impressive share price performances by companies including **Lockheed Martin** (Overweight past 12 months) and **Northrop Grumman** (Upgraded Apr 19) are sustainable.

Top pick: **BWX Technologies**. Top large cap: **General Dynamics**. Also favours **Mercury Systems**.

Commercial Aerospace - It's all about the 737MAX return to service...highlights three companies well placed to benefit.

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[Alembic Global Advisors](#)

Drug Pricing: Speaker Pelosi's Draft Plan

Healthcare

Has set goal posts so far to the left that it seems more likely to blow up than foster a legislative deal; Trump remains the wildcard. All eyes will be on the president, who originated the IPI model - the major tool he thinks will address the US vs international pricing issue he cares about.

Other coverage includes: Rollout of Trump's big health care plan; Medicare Part D modernisation; surprise billing; Democratic candidates on Medicare for All.

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[Capital Alpha Partners](#)

Protein Kinase Inhibitor Mkt: Booming with M&A

Healthcare

ArQule (ARQL) - Significant long term beneficiary and well suited for M&A as large pharma becomes increasingly interested in non-covalent BTK inhibition due to strong clinical data and safety profile.

Aptose Biosciences (APTO) - Very active 'catalytic calendar'. 2 assets that each provide 10x potential.

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[Bios Research](#)

Apple (AAPL)

Technology

Comprehensive analysis of Apple Card in their 'The analogy between payments and wireless networks' report. Expects a scramble by card-issuing banks to deepen partnership with **PayPal** now that **Goldman Sachs-Mastercard** has given Apple control over the customer payments experience.

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[RenMac](#)

AT&T (T)

Communications

Special report examining whether the company's transformation is at risk with Elliott Management urging radical cost cuts, as well as the significant reshuffling of senior management in the core Communications business unit.

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[Rethink Technology Research](#)

Dell (DELL)

Technology

Expects strong PC sales during H2, driven by the Win 10 refresh and **Microsoft's** decision to EOL Win 7 (Jan 20) which will support FCF. High margin enterprise business to benefit from significant platform updates in Storage. Aggressive deleveraging to continue, supporting EPS growth. TP \$75.

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[Cross Research](#)

Dollarama (DOL CN)

Consumer Staples

Turns bearish based on estimates of transaction trends at mature stores and new unit productivity forecasts. Concerns re. inflections in expense and gross margin trends, inventory analysis and ROIC/ROIIC. Earnings to miss consensus forecasts. A group of key insiders recently filed to reduce their stake by ~18%.

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[Quo Vadis Capital](#)

Estee Lauder (EL)

Consumer Staples

China Survey (Aug-Sep). Despite weak macroeconomic conditions, the premium end of consumer's discretionary spending continues to surprise to the upside. For EL specifically, estimates growth trend for La Mer and Estee Lauder has accelerated to 50-60% YoY and 25-30% YoY, respectively.

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[JL Warren Capital](#)

Generac (GNRC)

Industrials

Upcoming changes to California building codes offers additional growth

catalysts; provides a meaningful, multi-year runway for solar and energy storage business. Shares +30% since initiated (May 19) - significant upside remains.

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General Electric (GE)

Industrials

Calculates total net debt (after proceeds from business sales) of \$76bn. Will fall short of its capital target debt/equity of <4x by the end of 2020. Future capital funding hole will require billions of dollars of cash infusions in the coming years. First initiated at \$30, remains bearish, TP \$7.00.

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[Gordon Haskett Research Advisors](#)

Netflix (NFLX)

Communications

Latest primary market research and channel checks prove the streaming video giant's dominance over the domestic entertainment market is waning. This worryingly negative outlook marks a major shift in sentiment that began to emerge in research published Dec 18. Other companies mentioned include: **Disney, Amazon** and **Apple**.

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[Blueshift Research](#)

Zillow (Z)

Communications

Idea generated from their 'Breaking Growth Model'. Attempting to compensate for declining growth and profitability in its legacy advertising/marketing businesses by becoming a principal in 'asset-heavy'/low margin home-flipping and home mortgage origination. Significantly increased risk profile and poor earnings quality.

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[Two Rivers Analytics](#)

— RoW

Global Autos: The Five Degrees of Electrification

As the industry progresses from a period of confusion and disarray to tackle substantively the transition from fossil-fuel powered cars to alternative power trains, Julie Boote examines the various degrees of electrification being developed. She assesses the technologies and highlights the likely winners.

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[Pelham Smithers Associates](#)

China: Construction Equipment Weakness

Key takeaways from BICES 2019. Inventory stuffing and increased promotions are supporting equipment demand. Intense competitive environment remains. Negative sector view; companies include **Caterpillar**, **Komatsu** and **Volvo**.

Autos sector has also recently been covered. A production recovery is in sight; favours China-sensitive suppliers including **Aptiv**, **BorgWarner** and **Valeo**.

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[Silk Road Research](#)

Brazil: New Telecoms Law Finally Passed

Three years in waiting, PL 79 passed last week; hugely significant event for Brazilian telecoms, massively de-risking the sector and likely to spur a wave of M&A. Top pick: **TIM Participacoes**; also favours **Oi** (if you can take the volatility).

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[New Street Research](#)

Indonesia: Banking Opportunities

As global growth falters and net interest income growth becomes increasingly hard to come by as rates and loan volume move lower, Daniel Tabbush believes

banking gems remain in under-penetrated Indonesia. Favours **Bank Central Asia** and **Bank Tabungan Pensiunan Nasional Syariah**.

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[Tabbush Report](#)

Macro Research

— Developed Markets

UK: BoE Depressed by Political Dithering

Brexit continues to bifurcate the outlook for the economy and policy, with the BoE having a bias to hike rates if a smooth withdrawal agreement occurs. Costs to prolonging the political uncertainty by dithering over a decision are rising. The reduced likelihood of resolving things next month has raised their relevance and left the MPC signalling that this path would paralyse policy too.

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[Heteronomics](#)

Cyber: The Unseen War

Deep battle lines are developing as cyber-warfare escalates to unseen levels. As digital-based weaponry becomes crucial to the battlefield, state-supported hackers are collecting confidential information across economies to be held in reserve, until the right time.

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[Inferential Focus](#)

Chemical Recession

Chemical Capacity Utilisation (CU%) data falls to lowest level since Sept 2013, highlighting underlying weak global demand. India data plateaus and US decline intensifies despite \$200bn shale gas investments. The data confirms the recession risk is real.

Brexit: Revoke vs No Deal

An Extension Bill flaw means a vote for a Deal won't prevent a No Deal; it only makes it easier. Parliament is snookered on three fronts and this is just what Boris Johnson wants. Only an Article 50 Revoke vote will stop him - a suicidal option for MP's.

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US: Warning's Ahead!

Recent repo rate spikes are a warning of another 2007/08 crisis. Markets are becoming illiquid. Despite September FOMC rate cut, policy needs to focus more on balance sheet expansion. This will push bond term premia higher, cause yield curves to steepen and underpin outperformance from value over growth stocks.

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Draghi's Exit

ECB could cut rates by 20 basis points and introduce a deposit tiering system to help Northern European banks cushion the impact on their profits. QE resumption is in the pipeline, but more interestingly the ECB may be working on ETF purchasing programs for the near future.

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ECB: A New Era

Draghi's attempts to persuade people that negative rates have had a positive effect on growth, whilst downgrading forecasts and pushing rates even lower, is telling. The ECB's new strategy is shifting the burden onto Madame Lagarde. The "whatever it takes" era of ECB monetary policy is over.

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The World's Loosing out

Both loose monetary and fiscal policies can not grow an economy nor set in motion an economic boom, but rather bring on economic impoverishment - they can only redistribute a given pool of real savings from wealth generators towards non-wealth generating activities.

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[AAS Economics](#)

— Emerging & Frontier Markets

Down Goes China!

China's policymakers remain reluctant to carry out what would be an embarrassing and problematic aggressive stimulus. As credit panic, real estate fears and HK issues threaten China's controlled deceleration, the country must initiate a "rope-a-dope" strategy if it is to avoid an economic knockout.

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[Macrolens](#)

Emerging Markets: Squeezzzzzed

EM liquidity slumps despite global rebound. Cross-border flows weaken widely across China and other EM's - annualised data does not do justice to recent deterioration in monthly data as an estimated \$89bn was quit in August.

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Taiwan's Upbeat Economy

Defies the odds as the remarkably resilient economy benefits from trade diversions - helped by the "Invest Taiwan" initiative - as the trade war continues to boil. OPR continues its descent. Headwinds still remain, but policymakers now have a chance to bolster Taiwan's growth rate.

Ukraine's Reform

Sound public finances will boost potential for further sovereign upgrades. The snap parliamentary election will allow future reforms with little resistance, although inexperienced bureaucrats may struggle with success. Investor optimism may be dampened by the lack of quick progress on the new IMF programme, but improving relations with Russia will help.

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Peru's Tug-of-War

Peru's growth rebound is likely to be moderate as a political tug-of-war rages on between President Vizcarra and Congress. Investments and new employment to be delayed and demand for non-commodity imports to fall as international tensions heighten.

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Commodities

The Future of Energy

Report reveals the "Top Ten" technology leaders in energy following a review of 3,000 industry patents and identifies potentially game-changing cutting-edge technologies. Technology leadership is 50-80% correlated with ROACE, 80% with upstream project costs and positions companies favourably for upcoming energy transition.

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Fool's Gold

The recent bullish euphoria for gold, at a level unseen since 2011, appears to have come to an end. Weakened global activity and flattening stock indices confirms that the recent downside adjustment from 1557.9 to 1484.6 was necessary with more downside due in the coming months.

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For further information please contact us at:

Edward Blad

Edward@independentresearchforum.com

+44 (0)203 405 7120

Bloomberg IB / eblad3@bloomberg.net

[LinkedIn](#)

Alexis Vatistas

Alexis@independentresearchforum.com

+44 (0)203 405 7123

Bloomberg IB / avatistas6@bloomberg.net

[LinkedIn](#)

Jenny Metta

Jenny@independentresearchforum.com

+44 (0)203 405 7126

Bloomberg IB / jmetta2@bloomberg.net

[LinkedIn](#)

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Our mailing address is:

Independent Research Forum

27 Austin Friars

London, London EC2N 2QP

United Kingdom

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