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Independent  
Research  
Forum

## The Cut - Edition 70

Introducing the very best of Independent Research from  
the IRF Providers

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### Events

#### **IRF Lunch with Brian McCarthy - China Macro**

"Why doesn't China embark on Stimulus? Why do Chinese credit markets remain so calm? How do balanced capital flows square with talk of dollar shortage?"

**Lansdowne Club - 17th October at 12.30**

[Confirm attendance](#)

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#### **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 12.30**

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# Company & Sector Research

## — EUROPE

### Machine Intelligence: Accounting, Governance & Earnings Quality Red Flags

Launches machine intelligence called [Dragonfly](#) - assimilates >600 raw data points to provide automated, unbiased and relevant insight in 1200 European companies with market caps >€500m. It ranks the stocks according to their proprietary mispricing index. Stocks currently highlighted include: **Subsea 7**, **MTU Aero**, **Rolls Royce**, **Nokia** and **Serco**.

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### EU Telecoms: Buy Case Remains Intact

Upgraded end of 2018; the sector remains on track for its first positive share price return since 2015. An increased focus on infrastructure value will help in continuing to close the c.10% discount to the market. Best performing: France, Portugal and Greece; **Orange**, **Altice** and **OTE** are ideally positioned and also positive on **Vodafone**, **Telefonica**, **BT** and **KPN**.

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**Prosus**

**(PRX**

**NA)**

### Financials

**Naspers** (Buy rated) completes PRX listing on Euronext Amsterdam. Using the sum of the value of portfolio investments, argues PRX should be valued at \$176.1bn or €99.00 per share (50% upside).

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**SIG**

**Combibloc**

**Group**

**(SIGN**

**SW)**

### Industrials

Strong performance recently proves not only the company's growth potential, but also their defensive business model. Furthermore, a likely structural change in the beverage packaging industry (more carton, less plastic), is another argument for a higher valuation. Increases TP to CHF 15.00.

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## — NORTH AMERICA

### Retail: Store & Corporate ROIC Trend Analysis

Quarterly update on retailers under coverage, solving for ROIC at new stores, average stores and at the corporate level identifying ongoing trends and inflection points. Tested each of their models for upside/downside vs consensus.

Companies expected to beat/raise estimates: **Boot Barn**, **Lululemon** and **Target**.  
Downside risk: **Ulta Beauty**, **Ollie's Bargain Outlet** and **Dollarama**.

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## Semiconductor Sector Slowdown

Weak guidance from **Micron** and falling utilisation of older process nodes at silicon foundries foretell overall weakness in semis. A slowdown in China/Germany economic metrics and now in the US manufacturing sector are harbingers of unfavorable risk/reward. Negative: **Intel**, **Apple** and **Qualcomm**, but positive view on **Advanced Micro Devices**.

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## BlackBerry

(BB

CN)

Technology

Accounting inflated revenue and expectations - thesis playing out, having warned about this (Dec 18), when the company reported ES&S revenue growth in Q2 & Q3-F19 of "single-digit" and 6%, but were closer to -10% and 3%, respectively, when taking into consideration accounting changes. Then in Q2-F20 ES&S revenue dropped 15% with the shares falling over 30%.

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## Goodyear (GT) & Cooper (CTB)

### Consumer Discretionary

These two iconic US tyre companies have destroyed shareholder value this year. In his latest Forbes article, Jim Osman calls for the two to merge and realise the synergies before they completely fail.

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## Kosmos Energy (KOS)

### Energy

Favourite E&P equity name. 2019-2022: Will generate its M/cap in FCF at \$60 Brent. Farming-down Senegal would bring ~\$1.5bn of cash before year end. Considered a likely acquisition target as currently trades at a significant discount to NAV (130% upside).

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## Qualcomm (QCOM)

### Technology

Will become the No.1 player in smartphone RF by 2H20; MMWAVE RF looks to be a position of particular strength. 5G launch in China will see a slew of new smartphones

with QCOM seeing significant content growth. News re. V2X standards based on 5G - a meaningful driver of long-term growth. TP \$99.

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## Snap Inc (SNAP)

### Communications

Valued at 17x sales/11x book value; company must increase revenue 79% while keeping total expenses unchanged just to reach break-even. Fickle user base and competition from **Facebook**, **Alphabet** and **Apple** is only going to increase. Continues to see significant insider selling. TP \$10.

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## Zoom Video Communications (ZM)

### Technology

Thesis playing out as anticipated; continues to see a disconnect between Wall St. expectations and fundamentals. Competition has been ramping up. Customers prefer buying system solutions vs point specialist. Margin compression expected and recent security breaches are a concern. TP \$55 (28% downside).

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## — Japan

**Takara Bio (4974 JP)**

Healthcare

Does not share the market's optimism on commercialisation potential of the company's two clinical stage gene therapies. TBI-1401 remains unpartnered in the US since 2017. Highly sceptical on potential gene therapy pricing in Japan.

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## — Emerging Markets

### Asia: Cloud Gaming Taking Off

Special report shows cloud game platform and services revenue in Asia will hit \$3bn and 60m gamers by 2023 and 500m by 2028. Excellent opportunity to remove cost and platform barriers to gaming that exist today. The services and investment in the 5G infrastructure will be paramount to success. Companies highlighted include: **Tencent, Huawei, SoftBank, Rakuten** and many more.

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## China Internet: Can Operating Leverage Sustain?

Recent improvement in profitability across the sector is unsustainable. Adnaan does not believe that the current financial discipline has longevity given the industry and competitive structure. The fight for users and market share will recommence soon. Bearish view on the following companies: **iQiyi**, **NetEase**, **Baidu**, **JD.com**, **Weibo** and **Alibaba**.

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## China Elevator Market: Positive Order Trends

Despite China slowdown, consensus forecasts are too negative. Latest channel checks reveal better than expected trends; 3Q19 orders tracking MSD growth YoY. Pricing outlook has improved over the last 3-6 months. Top picks: **Kone** and **Schindler**.

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## Pinduoduo

(PDD)

### Consumer Discretionary

Top pick in the Chinese eCommerce space. With fewer **Alibaba** (Buy rated) demands for exclusivity and large merchants expanding more aggressively on the platform during the quarter, expects PDD to beat expectations. Primary research also indicates that there is still no recovery yet from large appliances / 3C to drive growth re-acceleration at **JD**.



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## India Banks: No Respite from Lower Rates

Questions the market's bullish reaction to US\$20bn tax relief. Credit malaise remains wide-spread, corporate tax relief and RBI rate cuts are not helping. **Mahindra & Mahindra Financial Services, Ujjivan Small Finance Bank, Yes Bank and IDFC First Bank** are all highlighted.

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## GEM Fund Positioning: Saudi & S.Korea Unloved

As the 2nd tranche of MSCI's Saudi Arabian inclusion entered indices, only 13% of GEM active managers hold any exposure and all sectors are underweight. South Korean stock allocations hit 8 year lows, driven by outflows in Communication Services and Utilities stocks.

Also included in the report: The Value/Growth Divide. An analysis of the differing allocations between EM Value and Aggressive Growth strategies.

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# ESG

## The Hunt for Yield Goes Green

Divestors' move out of fossil fuels will be one of the few ESG megatrends of the next decade. Some asset classes will benefit from financial inflows looking for a "greener" dividend. Expect Real Assets, especially green Real Estate, to benefit most.

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## Bio-Internet: Staving Off an Environmental Catastrophe

We must build a new economic system that can sustain life - the best option to do this is to build an internet based on DNA. Five companies are highlighted that are programming DNA to solve: 'Food Shock' (supercrops), 'Energy Shock' (edit algae/biomaterials to create cheap biofuels on a massive scale) and 'Disease Shock' (stamp out infectious diseases).

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## A Balancing Act

Recent US United Auto Workers union strikes shows the balancing act for ESG of job sustainability or environmental stability. Can industries reliant on fossil fuels safeguard employees' livelihoods as the world moves towards a low-carbon economy?

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# Macro Research

## — Developed Markets

### Plain Vanilla Flavoured Slowdown, Please

The crucial global growth slowdown is a plain vanilla end of cycle inflection epicentred in China and the developed world. This isn't a manufacturing and trade war issue, it's a normal inflection prompted by tightening cycles across the globe. The slowdown in domestic business investment is also outpacing the decline in cross-border investment - the trade war isn't what matters.

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### US: UnWarrented Beliefs

The Stop Wall Street Looting Act deepened equity investor opinions towards consumer-champion Elizabeth Warren. Yet the well-informed presidential candidate aims to support small business growth and her environmental ambition could provide the opportunity for the US to lead the world in green technologies.

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## Trump, Clumsy or Illegal?

Having initiated the impeachment inquiry, the Democrat leadership cannot avoid a formal vote - one that will pass the House and fail in the Senate - unless Trump's behaviour is shown to be clumsy rather than illegal. The increased political pressure will lead to Trump shifting his negotiating stance with China to bolster re-election chances, but will China play along?

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## A Democratic President's Extreme Energy Policy

Ban fracking? End leasing on Federal lands? Natural gas-generated power off the grid? Find out what a Democratic President can do unilaterally to enact an extreme energy policy, even without control of Congress.

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## Brexit: The Deal that is No Deal

Boris' deal will force No Deal. For the ROI, No Deal will be the lesser of two evils. The EU won't stand for it either, as it opens up the Single Market and Customs Union to abuse. So why is Boris bothering? He's absolving himself of blame, a crucial move for the upcoming People vs The Establishment election.

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## A Really Cheap UK

The UK is cheap on almost all equity market valuations. The FTSE 100 is on a PER of 12x - a level usually seen in crises - and is even trading at a 28% PER discount against the S&P 500; other than 2008 it has never been cheaper. Don't blame Brexit too, UK equities are cheap compared to other UK assets.

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## Singapore's Spectre

The spectre of a technical recession has returned to haunt the economy - the external sector is faltering so quickly that even the so-far resilient domestic-oriented parts of the economy are likely to weaken as well. Policymakers must consider deploying a more robust fiscal stimulus package.

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## New Zealand, No New Jobs

The country's sentiment index reaches a multi-year low. Despite a 1.0% cash rate, no sector of the economy has reported plans for a net increase in staff numbers for the first time in a decade.

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## — Emerging & Frontier Markets

### In the Shadows of China

Shadow banking will come roaring back causing waves in the shadow-loan-dependent private sector, boosting profit growth even in impoverished provinces. When the inevitable financial crisis occurs Beijing will be able to ring fence the state banks from shadow bank problems. The issue lies in the wealth management products and the property market, with their potential of starting a devastating chain reaction.

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### A Downward Passage to India

Despite multiple rate cuts, India's cyclical slowdown is intensifying - manufacturing PMI down 4 points and infrastructure output at 0% YoY. Recent tax cuts are unlikely to solve the problem.

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### Broken Compass

There is no clear overall direction among emerging economies as China's growth hovers around 6.5% and the S.Korean economy dips below 2%. Latin America is faring better

as Brazil gently expands and Mexico returns to positive territory, Russia and Turkey have lost momentum.

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## A Reality Czech

Bearish steepening of the CZK swap curve alongside an appreciation of the CZK currency. Technical elements advocate for a rise in CZK outright swaps with an upside potential on the 10y maturity of 157/206bps and the CZK 2-10y curve to steepen by 45/70bps.

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## Softening Taiwan

A positive few months won't represent an upswing in overall trade data and its export sector will remain soft. More sustained growth present in the domestic economy doesn't ignore the fact Taiwanese equities remain constrained by weak global growth outlook and soft liquidity trends.

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## South Africa's Evangelical MPR

The latest MPR reinforced the operating mode of the MPC and conviction around their current reaction function - they are not for turning. A November cut remains unsure, but it did make clear there is a big obstacle to shift from 'fiddling' to a larger cutting cycle.

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## Commodities

### Soaring Nickel

Nickel's price has soared \$6,000 per metric ton to \$17,740+. Indonesia is moving forward with export bans in an attempt to spur local processing. As China, India and EU nations ramp up EV production, the rise in mineral prices will need to be tempered or subsidised to keep electric cars attractive for consumers.

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