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Independent  
Research  
Forum

## **The Cut - Edition 73**

Introducing the very best of Independent Research  
from the IRF Providers

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# Events

## **IRF Drinks Party**

We are delighted to invite you to our end of year drinks party. If you are in London and free, do join us for an informal gathering where we can catch up on the industry, your service and introduce you to the growing IRF team.

**The Coq d'Argent, 1, Poultry - 19th November from 6pm**

[Confirm attendance](#)

## **IRF Christmas Lunch with Chris Watling**

"The madness of modern monetary policy; a.k.a. where are all the bubbles?"

**The Institute of Directors, 116 Pall Mall - 10th December at 12.30**

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[Longview Economics](#)

[\*\*IRF Events Calendar\*\*](#)

# Company & Sector Research

## — Europe

### Super-Computers at Oil Majors?

Computing capacity has exploded and the pace of growth is quickening. Examines leading initiatives including large computing centres owned by **TOTAL**, **Eni** and **BP**; while even larger simulations have occurred in partnership with Academia. Particularly exciting is the potential use to develop better catalysts (help decarbonise downstream processes), where **BASF** is an industry leader.

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[Thunder Said Energy](#)

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### Stabilus (STMGR)

#### Industrials

Significant opportunity following the shares being unfairly derated alongside other auto suppliers, despite having a far more dominant position in its niche product offering and higher through-cycle margins. Analysis of the shift to single-sided automated tailgates shows how this protects even in a declining auto production environment. IV €73; stock up 34% since call initiated.

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### Vodafone (VODLN)

#### Communications

Is opening your network to wholesale partners a value-accretive move? VOD signing a wholesale MVNO agreement with **Virgin Media** marks a substantive

turning point that will help to turbo-charge their recovery, makes life tougher for existing providers of wholesale access and helps out the MVNOs. Highlights the winners and losers.

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[New Street Research](#)

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## — North America

### Private Equity & Index Investing Warning

Like PE, Index Investing is benefitting from a frenzied bout of investor mania. Have published a series of interconnected pieces tracking unprecedented levels of group-think and the associated risks to investors. Their work was recently cited in [Barron's](#). Reports include: Private vs Public Markets, Better a Seller than a Buyer Be?, IPOs and the Passive Patsies and When the Top Decile is the Bottom of the Barrel.

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[Kailash Concepts](#)

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### Uniform Accounting Analysis

GAAP accounting creates distortions from reality - see what the real P/E, ROA, EPS and Asset Growth is after removing these distortions. Highlights include: why **Microsoft** actually has returns of 34%, not 10%, **Roku's** real EPS is \$1.00, not -\$0.08, **Comcast's** P/E is 22x, not 14x and why **Activision Blizzard** has returns of nearly 40%, not 7%.

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[Valens Research](#)

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## Retail: 2019 Holiday Forecast

Predicting 5.2% sales growth (vs industry projections c.4%) with momentum set to continue well into 2020. Several turnaround retailers will beat expectations. These include **Dick's Sporting Goods**, **Dollar Tree** and **Urban Outfitters**. This 47-page report includes a forecast thesis on over 30 different companies.

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[Customer Growth Products](#)

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## Appian Corp (APPN)

### Technology

Idea generated from their Liquidity Risk model. TP \$26 (40% downside) based on slower organic software growth, declining service revenues and lower margins. Competition is intense, earnings quality poor and cash flow weak.

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[Two Rivers Analytics](#)

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## Booking Holdings (BKNG)

### Communications

Q3 results beat expectations - Proprietary Room Night Tracker was spot on once again. Gaining market share, operating trends stabilising, the bull case is strengthening. Investors wrong to judge the company on the issues that are impacting both **Expedia Group** and **TripAdvisor**.

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## Herbalife Nutrition (HLF)

### Consumer Staples

Following the company's earnings release, raises EPS estimates for 2019 to \$2.75 (from \$2.60) and 2020 to \$3.15 (from \$3.00); initial 2021E is \$3.70. A meaningful acceleration is underway in the underlying momentum of the business coupled with expectations that stock buybacks will resume next year.

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## HP Inc (HPQ)

### Technology

This event-driven Research Provider has proven to be well ahead of the curve yet again - having first flagged to clients on 2nd Oct (and even on CNBC last week) that Carl Icahn was likely building a stake in the company. Odds of a deal with **Xerox** have increased further. Visentin would be the preferred CEO of the merged company.

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## Qualcomm (QCOM)

### Technology

March quarter guidance is being driven largely by 4G handsets and not by 5G. Expects the Street to be disappointed with 5G sell-thru when the data rolls in and perhaps even earlier, when supply-chain data emerges. Longer term the fundamentals for the company do not get any easier either.

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## Seagate Technology (STX)

### Technology

Reiterates out of consensus bullish view. A focus on new product cycles for high density storage, especially for hyper scale data centres and surveillance applications, continues to create a differentiated story vs. others in the supply chain. Investors underestimating the impact on ASPs and gross margins.

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## Shake Shack (SHAK)

### Consumer Discretionary

Bear thesis playing out as shares hammered following earnings report. Previously argued that dilution from weaker new units will lead to successive downward revisions to Street forecasts and a much lower EBITDA and EPS growth rate than expected. Substantial downside remains.

Recent (short) successes also include: **Ollie's Bargain Outlet** and **Ulta Beauty**.

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## T-Mobile (TMUS) & Sprint Corp (S)

### Communications

Expects the deal will successfully complete. Sees a significant opportunity with the merger spread currently at ~36% - almost back at its pre-DoJ approval high of 38%. Does not believe pricing terms will change, but the opportunity for outsized risk-arb remains even if the exchange ratio is cut by 10%.

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— **Japan**

## SHIFT Inc (3697 JP)

### Technology

In an exceptionally strong position to capitalise on its status as STaaS market leader. No external competition, significant sales growth and margin improvement potential. Literally turning business away as the merits of outsourced software testing are starting to be understood by an expanding client base.

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[Storm Research](#)

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## Sony Corp (6758 JP)

### Technology

This report addresses the three main concerns currently weighing on the stock's valuation - competition re. image sensors, disruption to the console business via online gaming and the overall disruption in the distribution of content - believes these concerns to be severely overblown. Trades at steep (and unwarranted) discount to peers. FV ¥9,000 (37% upside).

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## — Australia

## Aurizon Holdings (AZJ)

### Industrials, Transport

Management has delivered an unprecedented customer agreement that creates long-term value and the potential to unlock ~A\$1.2bn of gearing capacity.

Medium-term above rail growth can surprise, driven by volumes and technology-led efficiency gains, with benefits to be shared with customers.

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## — Emerging Markets

### Saudi Aramco: Pre-IPO Report & Valuation

#### Energy

This 22-page report examines the key investment considerations, including the company's unique characteristics, investor sentiment, how EM oil stocks trade and the issues that influence the strategies of the NOCs. \$2tn valuation is considered an extreme stretch, \$1tn is far more appropriate.

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### China: Insurance Theme Remains Attractive

Has been long mainland insurers and short developers since Jan 19 with ~30% out-performance. Believes that the demographic and policy backdrop driving private pensions / healthcare will continue to offer a secular tailwind. Long term bull re. **Ping An**; expects **China Life** to re-rate even further given the huge valuation differential.

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## Baidu (BIDU US)

### Communications

Reverses bearish position (stock down 60% since call initiated) - now bullish. Core margins to return to 35-40% range in the next 12-18 months. Expects a re-acceleration in revenue growth as new initiatives monetise and macro and healthcare headwinds abate.

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[Adnaan Ahmad Research](#)  
[\(The Tech Analyst\)](#)

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## Meituan Dianping (3690 HK)

### Consumer Discretionary

“Alibaba 2.0” with a large moat; 65% market share creates “virtuous cycle”; “Best-in-Class” management. They have invested heavily in technology / ecosystem with an opportunity to penetrate verticals outside food delivery. TP HK\$312 (220% upside).

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## Titan (TTANIN)

### Consumer Discretionary

Presents key takeaways with a franchise store owner (based in Tanishq) who has been associated with the company for over 11 years. Focuses on the impact of high gold prices on demand, upcoming Wedding Season expectations, Gold Exchange Programme / Golden Harvest Scheme, strategy to boost market share, store expansion and long term business outlook.

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[ASA Capital Management](#)

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# Macro Research

## — Developed Markets

### **Bursting of the Biggest Debt Bubble in History**

The global bond market and its trend to zero rates is an accurate measure of the global economy and market risk; the stock market has lagged this perspective as printed money continues to wash around the system. A bear market akin to 1929 is around the corner with a massive short time-frame drop that will isolate the longs and never allow them to escape.

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### **The Fed's Global Responsibility**

Despite the FOMC's decision to pause policy, the critical issues that sparked rate cuts remain. Although the post-GFC era demonstrated the issues with monetary policy, the Fed has been more willing to counteract trade-related uncertainties than other banks. The onus of supporting global growth has once again gravitated towards the Fed.

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### **US Economic Performance: Leading the Charge**

Performance next year depends on what is happening to the most reliable leading indicators now. Watch the ratio between Moody's Baa and Aaa corporate bond

yields. If its recent decline is sustained, modestly faster growth is implied for 2020.

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## Steep Curves & Steep Valuations

A puzzling relationship is present between the yield curve and the valuation of banks in Europe. Between 1996 and 2009, a flatter yield curve in the Euro area was associated with higher valuations. Is a steep yield curve in the Euro area really what banks need?

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[Economic Perspectives](#)

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## US Bonds Re-Price for a Mid-Cycle Correction

10-year bond yields to climb back into a 2.25-2.50% range; front-end rates to price flat to the effective funds rate. With US bond yields re-pricing, it's hard to be pessimistic USD.

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[Redward Associates](#)

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## Tweeting Brexit

By using a self-built NLP model to analyse MP support for Brexit using 42,000 Twitter posts, each of the actual voting outcomes in the Brexit process has been correctly predicted. Next up predicting the general election outcome!

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## An Unthreatened Boris Victory

Unstable UK politics will not stop a confident Boris attaining victory; the PM is sustaining an 8-10pt lead at the polls whilst ex-Labour anti-Corbyn MP's are stepping down, some calling for Boris' votes. The Brexit Party deciding not to contest certain seats is helping the Conservative fight.

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[Blonde Money](#)

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## — Emerging & Frontier Markets

### Asian Politics: Into the Frying Pan

Chinese and Hong Kong officials will eventually take a harder line against protesters. A Hindu success in India regarding a holy site will further alienate the 13% Muslim population. Tensions in Malaysia's ruling coalition are reaching a crisis point. Asian political risks are mounting.

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### EM Liquidity: Still Waiting on China

CBC's proprietary EM Liquidity Index (EMLI™) hit 24.7 (out of 100) - the weakest reading in 20 years. EM central banks remain restrained, unlike DM policy-makers. Investors' risk appetite signals holdings still positioned risk-off. Cross-border capital flows into USD may be peaking.

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### Malaysia's Pessimistic Outlook

Growth to decelerate sharply. Local equity market to struggle in the short-term. Longer-term, a weaker CAPEX environment and increasing outflows of

resident capital will detract from the economy's positive outlook and value of the MYR.

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[Andrew Hunt Economics](#)

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## Brazil: Markets Buying the Dream

The equity market has run well ahead of the economy. The country is climbing out of a deep recession, but poor competitiveness and imbalances are still apparent. Risk/return seems clearly asymmetric in the rates and FX complex, and in equities the valuations are too high a hurdle to expect material upside.

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# Commodities

## IMO 2020: Unintended Consequence?

Serious risk new sulphur regulations could undo 30-years' improvement in the CO2 intensities of the refining industry. While downstream decarbonisation may become more challenging, they also expect economic decarbonisation opportunities to emerge - report identifies the leading companies.

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## Gold: 5-Year Forecast

The Gold price is trading at around three-month lows, following its drop from multi-year highs. Volatility is still being driven by economic and geo-political factors. So, should investors keep their powder dry, or is there a good buying

opportunity

emerging?

This quarterly report includes price forecasts, projections on the main supply and demand components and the key factors that they expect to drive these developments.

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[Metals Focus](#)

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