



Independent
Research
Forum

The Cut - Edition 75

Introducing the very best of Independent Research
from the IRF Providers

Dear Cut Readers, this is the last edition of The Cut in 2019. Many thanks for continuing to support our publication.

We would like to hear from you more: if you have any suggestions for The Cut and / or would be interested in finding out about Independent Research Forum - IRF and our Providers, please do contact us.

In the meantime, here's wishing you much happiness over this Festive period and a very prosperous New Year!

Events

The Madness of Monetary Policy

A thought-provoking, and ultimately bullish presentation from Chris Watling of Longview Economics at the IRF investor lunch held at Browns Hotel entitled 'The Madness of Monetary Policy'. Chris contends that the Western economic model is broken, having been built on a fall in the savings ratio to fuel consumption. The effect of a money creation glut can be seen from the negative rates all along the Swiss yield curve to the "everything bubble" where a multitude of diverse assets have outperformed nominal global GDP growth. The global financial system is slowly being absorbed onto central bank balance sheets reducing the asset pool and in

combination with easy money pushing up asset prices.

Despite these issues Chris is bullish on equity markets going in to 2020 as he expects a mini re-acceleration in major Western economies. Money is not too tight/central banks are easing. The ECB is easing at a time when Eurozone wage inflation is high. The consumer is structurally robust and housing indicators are bottoming/improving. He is very bullish the UK equity market which has not been this cheap since the Battle of Britain and advocates selling any rally in bonds over the next 30 years.

[Request info](#)

[Longview Economics](#)

IRF Events Calendar

Company & Sector Research

— Europe

Atlantia

(ATL

IM)

Industrials

Heightened political tensions have caused the shares to sell-off, but it is now over 50% below their 'ASPI Termination Scenario' (considered highly unlikely) TP of

€33 and 100% below SOTP-based TP of €42. Also looks at the impact of Moody's downgrading the company's credit rating recently.

[Request info](#)

[Insight Investment Research](#)

Redrow (RDW LN)

Consumer Discretionary

The cheapest of the housebuilders with consensus incorrectly forecasting a margin contraction - falling plot costs and rising ASPs will actually see EBIT margin climb 150bps. Inherent conservatism in recent land purchases is underappreciated. Company can release significant cash even in the event of a downturn. IV £12.50 (85% upside).

[Request info](#)

[StockViews](#)

Schmolz+Bickenbach (STLN SW)

Materials

Calendar Entry: March 2020 S+B post rights issue equity.

German car production volumes typically return as quickly as they drop and so do S+B's orders. The company is set to fundamentally bottom out next year. Shares to double with backlog returning above 550kt.

[Request info](#)

[Sarría](#)

European Stock Portfolio: Huge Outperformance

The AIR Top 10 stocks portfolio has outperformed its benchmark by ~3x (+159% vs +54%) since Jan 2012; YTD +29% (+8.4% outperformance). Clearly demonstrates the intrinsic value of stock picking in today's equity markets and AIR's consistently successful approach to stock selection.

2020 Top 10 to be published next week having selected their preferred choices from a shortlist of over 530 companies researched.

[Request info](#)

[IRF Event](#)

[Advanced Investment Research](#)

— North America

Alternative Accommodation, OTAs & Airbnb

Crucial sector to understand - AA to become a much bigger market than most investors are currently expecting. Explores the key dynamics, impact on hotel owners/brands, as well as a comprehensive review of Airbnb (incl. proprietary data) and the threat its IPO poses to the OTA and lodging sectors.

[Request info](#)

[Hedgeye](#)

Sicklicals

The 'buy cyclicals because there's no recession' narrative is wrong. Want positive alpha? Overweight defensives (Staples, REITs, Utilities) and underweight cyclicals (Industrials, Materials, Con. Discretionary). There is also a stealth bull market underway in both gold and silver mining stocks. Alongside sector recommendations, specific stocks are highlighted to maximise returns.

[Request info](#)

[Belkin Report](#)

Fiber Conference Highlights Pricing Pressure

Risks

Key takeaways from CRU's World Optical Fiber & Cable Conference. Excess fiber production capacity in China is leading to destructive pricing as the EU pursues anti-dumping investigations. Fiber cable demand is under more pressure than the Street is estimating given 5G network sharing, peaking FTTH rates in China and slow US broadband spending. Specifically covers the impact on **Corning**.

[Request info](#)

[Cross Research](#)

Construction: Earnings Review & Outlook

A Q3 earnings recap of TRG's coverage universe (see overview for list of companies) showed demand was strongest in non-residential and publicly funded construction, while residential starts and repair & remodel are beginning

to show positive inflection. Most companies are still benefitting from previously implemented pricing actions taken at the end of 2018 and early 2019.

[Request info](#)

[Thompson Research Group](#)

Pay Attention to These Event Driven Ideas

Dollar Tree - Family Dollar troubles bleed into Tree banner; clear opportunity for an activist to revisit this stock.

Teradata - String of EPS misses, stock on lows, older interim CEO with new CiC: antennas up for an M&A approach.

E*TRADE - **Charles Schwab/TD Ameritrade** not fatal for their takeout prospects; just need to think outside the box for merger partner.

[Request info](#)

[Gordon Haskett Research Advisors](#)

Axon Enterprise (AAXN)

Industrials

Expecting ~19% revenue growth in 2020 and at least double digit growth in the years following, based on a higher average sales price and increased bundling driven by new product offerings. Very bullish regarding Axon Air's potential (the company's drone programme).

[Request info](#)

[Northcoast Research](#)

Fox Corp (FOX)

Communications

Will be able to capitalise on ratings strength and an improved content portfolio by increasing fees - a large percentage of affiliate fee/retransmission revenues are due for renewal in the next 2 years. Expects them to generate FCF of ~\$2bn (FCF yield 9.5%) annually. IV \$53 (+50% upside).

Boyar are set to publish 'The Forgotten Forty', their annual report featuring 40 catalyst-driven stock ideas that have the greatest potential for capital appreciation in the year ahead.

[Request info](#)

[Boyar Research](#)

Gap (GPS)/Old Navy: Split a Big Mistake

Consumer Discretionary

The opportunities presented by CEO Art Peck's exit, unique insights into why no progress was made this Fall & Holiday, and why this split will limit the potential of these two brands from a 20 year former retail executive that understands the ins and outs of internal efficiencies vs. enterprise brand building.

[Request info](#)

[Retail Republik](#)

Kirkland Lake Gold (KL CN)

Materials

Jeffrey Parr (Chairman), ranked as a 'Smart Buyer' (based on his previous activity in several stocks) increases his holdings by 30%. This is his largest purchase and a reversal from large option sales in June. Smart Insider have highlighted this stock twice before based on Parr's activity and in both instances the stock moved up significantly.

[Request info](#)

[Smart Insider](#)

Lowe's Companies (LOW)

Consumer Discretionary

Sales below expectations on weak Black Friday performance. Based on checks, estimates comps for November of just +1% - well below forecasts of +4% for Q4. Still lagging behind the industry for online sales, meaning they are losing market share on holiday purchases.

[Request info](#)

[Mosaic Research](#)

Novanta (NOVT)

Industrials

Share price up over 150% since call was initiated, but significant upside remains (1yr TP \$105, 3yr \$160). Projects revenue and OCF CAGR of +20% and EPS of

+25% over the next three years, driven by accelerating organic growth and supported by acquisitions. Impressive R&D, continually introducing new products
- FM300 insufflator has significant potential.

[Request info](#)

[Costigan Reports](#)

— Japan

Large Cap Pharma: Valuation Updates

Report highlights key changes post earnings including:

Taisho - Significantly reduces estimates following the discontinuation of clinical trials of three pipeline assets. TP ¥7,000.

Takeda - Considerable upside remains; forecasts now include, TAK788 (NSCLC) and Pevonedistat (AML) with risk adjusted peak sales of ~¥30bn & ~¥33bn respectively. TP ¥5,600.

[Request info](#)

[Pathology Associates](#)

— Singapore

Banks: Rising Credit Growth Concerns

Credit growth in Singapore is now the most fragile in Asia. Sharp decline in pass loans over the last two months; substandard loans are rising rapidly (+20% QoQ). Heading into 2020, sees increased risks to bank earnings just as core income is weakening. Banks featured: **DBS** and **OCBC Bank**.

[Request info](#)

[Tabbush Report](#)

— Emerging Markets

Cloud Computing Goes Hybrid

The disruptive shift to a hybrid, container-based cloud is underway - **AWS** looks vulnerable. Open source software tools/languages are key to China's ambitions to catch up with the US - so is fully integrating the Asian hardware supply chain. Overweighting the key Asian 5G plays has paid off - smartphone sales are bottoming and China has replaced US component suppliers; key beneficiaries include **Murata** and **MediaTek**.

[Request info](#)

[IRF Event](#)

[Entext](#)

China Education: Survival of the Smartest

RedTech's latest survey finds parents in China still deem after-school classes as important as school itself. **New Oriental** and **TAL** are ideally placed to benefit

from this rapidly increasing demand, leveraging their size and well-known brands to pick up share in a highly fragmented market.

[Request info](#)

[RedTech Advisors](#)

India Payments: Paytm

Provides a detailed overview of the key players in the Indian payment ecosystem. This includes Paytm (**Alibaba** is the largest investor), a market leader and first mover who is reportedly considering an IPO in the next couple of years.

[Request info](#)

[ASA Capital Management](#)

Macro Research

— Developed Markets

Economic Red Alert

IR&M's economic checklist of 23 potential red flags currently stands at 4, which compares to 6 red flags in February of this year. This is very different to the UK and Germany, which are, in Star Trek parlance, on (economic) red alert.

[Request info](#)

[IRF Event](#)

[Ineichen Research and Management](#)

QE4 Continues

An essential QE4 is commencing. The US has boxed in a reactive China dependent on US policy easing and a benign trade war outcome - until this occurs, global QE4 will remain lop-sided. Very bond bearish in H1 2020.

[Request info](#)

[CrossBorder Capital](#)

Central Banks: Staving Off a Threat

10-year Treasury yields to head towards 2.25-2.5% range in the face of a reflatd global economy in 2020. Central banks will ease aggressively to stave off the threat of Japan's mild deflation and stagflation, though such an approach may be harmful - in this case, the discrepancy could be resolved by a weakening of nominal growth rather than a rise in bond yields.

[Request info](#)

[Economic Perspectives](#)

Hot America's Risks

The risks from a tight labour market are underappreciated. Fed Chairman Powell's comments that marginalised groups will be pulled into the labour market as a result are not backed up by evidence and do not justify the risks to the entire economy.

[Request info](#)

[IRF Event](#)

[RDQ Economics](#)

Sterling: The Cable Delusion

The recent sterling rally is not a recovery. The reasoning for the persistently depressed pound lies within the current account deficit, and Brexit will not make it smaller or easier to finance. The crash of sterling in 2014 is rooted in the current account blowout that occurred two years earlier.

[Request info](#)

[High Frequency Economics](#)

The Nervous Economy

Income inequality is getting larger, leading many to discuss the “haves” and “have-nots” of society. But that discussion misses the subtleties of shifts in economic realities that will make any economic downturn more stressful than currently anticipated.

[Request info](#)

[Inferential Focus](#)

Land of The Rising Sun

Japanese equities have the second-highest, risk-adjusted returns over the last 1, 3, 5 and 10 years. Over the last 5 years, the country has generated the fastest EBIT and dividend growth. They have the lowest pay-out ratio of the major regions (therefore most potential for growth). Ranked #1 in combined asset allocation model.

[Request info](#)

[Harlyn Research](#)

— Emerging Markets

Growing Pressures in China

Broad weakness in Chinese economy as traffic light indicators largely red/amber. Stimulus measures are limited. Bond issuance is stunted, credit growth will slow and tax cuts have been insignificant. A re-acceleration in economic growth will not occur in 2020.

[Request info](#)

[Longview Economics](#)

US Tariffs Against China Are Working

Pickup in Chinese Industrial Activity is simply inventory replenishment. Stimulus measures will not help a weak 1Q20 and GDP growth of 6% is vastly overstated. The narrative of Beijing being prudent is incorrect. Tariffs are having a big impact and China officials can only put on a strong face.

[Request info](#)

[Cascent Securities](#)

Another Success in Normandy - Russia/Ukraine

The success of the Normandy summit, which is positive for Russian and Ukrainian sovereign credit, will also help push towards the transit of Russian gas through Ukraine and bring about peaceful initiatives crucial to improving Russian debt ratings.

[Request info](#)

[Emerginomics](#)

A Baht Time in Thailand

Weak investment and high precautionary savings underpin Thailand's sustained currency as a result of its current account surplus. Political mire and structural weakness prove a lack of economic reasoning behind the Baht's stellar 2019 performance. Going short the Baht.

[Request info](#)

[Independent Strategy](#)

Iraq & Syria: Cutting Up What Remains

State and non-state forces move across Iraq and Syria with impunity as respective governments remain unable to prevent territorial infringements. Iraq's reliance on Iran means if Iraqi nationalists stand-up to govt, the survival of the land bridge will rely on Iran's willingness to step in. Iranian policy would traditionally be to play the long game, but time is against them.

[Request info](#)

[Intertemporal Economics](#)

Commodities

Machine Learning's Consistent Outperformance

Machine Learning-based models predict Cross-Asset Flows to generate Buy & Sell Signals. Consistent outperformance averaging up to 20%.

Recent Signals include:

- Buy WTI, driven by Silver.
- Buy Swiss 10yr, driven by Gold.
- Buy Momentum Stocks, driven by Aluminum.
- Short US Consumer Discretionary, driven by USTs, Gilts, and European HY.

[Request info](#)

[TenViz](#)

Natural Gas: Near-Term Volatility, 2020 Profitability (If Short!)

Weekly natural gas withdrawals to avg. 24BCF - less than the previous year.

Weather-related volatility will provide trading opportunities, until mid-Jan where prices will reflect longer-term fundamentals, moving towards \$2.00/MMBtu by Mar/Apr.

[Request info](#)

[Unit Economics](#)

OPEC's Cartel of Desperation

Is OPEC desperate? The UAE yesterday pushed up all of its November Oil prices \$3 a barrel. That was 10x market expectations. Commodity Intelligence are still strategic bears on Energy, but OPEC is quite capable of being stupid.

[Request info](#)

[Commodity Intelligence](#)

IRF works with 210 Independent Research Providers and Specialist Data Providers, which cover all the major Asset Classes, Sectors and Regions utilising a variety of methodologies.

For further information please contact us at:

Edward Blad

Edward@independentresearchforum.com

+44 (0)203 405 7120

Bloomberg IB / eblad3@bloomberg.net

[LinkedIn](#)

previously published research reports, notes and briefs. No investment decision should be made on the basis of any comments about the published research reports without first reviewing those related research reports.

This summary is for informational purposes only and is not limited to companies on which research providers have published or may publish research now or in the future. Under no circumstances is it to be used or considered as an offer to sell or a solicitation of an offer to buy any security, bank debt or trade claim.

While the information contained in this summary is believed to be current as of the date hereof, we do not represent or guarantee that the summary is current or complete, and it should not be relied upon as such.

We reserve the right to add or drop coverage of a company or industry, or change the analyst covering any particular company or industry at our sole discretion. Decisions to publish or terminate coverage are based on a variety of factors. As a result, coverage of such issues frequently may be characterised by either isolated reports, long periods between reports, or no reports at all. Our views of a security, issuer, industry or sector may change without the issuance of a new report.

IRF is not regulated under the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

Copyright © 2019 Independent Research Forum, All rights reserved.

You are part of the IRF contact list.

Our mailing address is:

Independent Research Forum

27 Austin Friars

London, London EC2N 2QP

United Kingdom

[Add us to your address book](#)

Want to change how you receive these emails?

You can [update your preferences](#) or [unsubscribe from this list](#).