



Independent  
Research  
Forum

## **The Cut - Edition 77**

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## **Introducing IRF's New Website...**

We are pleased to announce the launch of our new website at [www.independentresearchforum.com](http://www.independentresearchforum.com). It's now possible to sign up for our events and request meetings with our providers through our website directly. We welcome any feedback that you may have.

## **Events**

### **IRF Lunch: Global Economics with Gerard Minack**

'More Goldilocks' - Economic growth is improving, interest rates are low, and there is almost no prospect of any major central bank tightening.

**The Lansdowne Club - 29th January at 12.30pm**

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### **IRF Lunch: Thematic Research & Asset Allocation with Sean Maher**

Current themes include: Low carbon energy transition, the global competitive shock from increasingly sophisticated Chinese consumer brands and China tech 'decoupling' from the US.

**The Lansdowne Club - 6th February at 12.30pm**

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[Entext](#)

### **IRF Lunch: Energy, Metals & Mining with Matthieu Raimbault**

High Conviction Equity Ideas for 2020.

**The Lansdowne Club - 11th February at 1.00pm**

## IRF Events Calendar

# Company & Sector Research

### — Europe

## Atlantia (ATL IM)

### Industrials

New ASPI Strategic Plan 2020-23 (increasing maintenance expenditure/CapEx to €7.5bn) will have no meaningful negative impact on valuation, but does provide an effective tool to improve Italian motorways and increases the chances of a more 'friendly' relationship with the Italian government, which would be share price accretive. SOTP TP €42 (100% upside).

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## Dechra Pharmaceuticals (DPH LN)

### Healthcare

Shares down 10% following last week's update. Confirms original thesis re. slowing growth, inventory risks and adjustments to margin hiding the true cost of growth. Also flagged the CEO selling 25% of his holdings. The company's blaming of US supply issues seems convenient and probably requires significantly more margin investment and sales focus than the market currently forecasts. 50% downside.

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## Fever-Tree Drinks (FEVR LN)

### Consumer Staples

Initiated Mar 18 (SI <1%; DTC <1) - near saturation in UK, difficult comps, contrarian viewpoint on US opportunity, increasing competition, margin

pressure, lofty valuation, and counterpoints against its takeout candidacy. Shares weakened meaningfully before falling an additional 27% (20th Jan).

Shorts closed in 2019 include: **TriNet** (-31%), **Sprouts Farmers Market** (-23%), **Adtalem Global Education** (-23%), **Kellogg's** (-22%), **Foot Locker** (-22%), **Swedish Match** (-20%).

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## Nokia (NOKIA FH)

### Technology

Covered short in December at €3.2, now time to go long. Mr Market is pricing in a MSD margin for the non-licensing assets which is simply too low. Net cash position to increase to over €2bn in next 2 years. 40% upside. Pair trade option as well - alongside shorting either **Ericsson** or **ZTE**.

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## — North America

### GAAP Accounting: Distortions From Reality

Why one should never use as-reported accounting to invest - learn what each stock's real corporate profitability and valuation is after 130 Accounting Adjustments are applied. Examples include: why **PayPal's** real asset growth is 39%, not 6%; how **Apple** has had returns decline from 41% to 43%, not remain level at c.11% and why **Autodesk's** real EPS is \$0.76, not -\$0.37.

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### FirstAlert: Proprietary 10Q/10K Text Analysis Module

Text discussions within financial filings contain material information for investors. There are always reasons when companies change their wordings. 55% of 280first Alerts have beaten the market (performance summary [here](#)).

Top calls from 2019 include: Longs: **Rite Aid** (+120%), **Synaptics** (+78%), **Advanced Micro Devices** (+65%). Shorts: **Owens & Minor** (-69%), **Teva Pharma** (-43%), **New Relic** (-41%).

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[280first](#)

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## Semiconductors: Entering a Multi-Year Upswing

Following a 'traditional business cycle downturn', proprietary data shows the sector is now firmly bouncing back. Multiple end markets are ramping to drive demand. Data highlights include: Power semis rebounding in Asia; RF chip supply chain indicator growing strongly; NAND indicator - best result since Jan 19; DRAM indicator and microcontroller supply chain activity improving.

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[Cascend Securities](#)

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## Success in Retail: The 2020 Version

H1 to benefit from healthy consumer spending, good fashion trends, cleaner inventories and easier comps (cold weather last 2 years). Key themes include: 'Simple Shopping', 'Zero to Crowded' and 'Re-sale & Renting'.

Bullish: **Nike**, **Foot Locker**, **TJX**, **Moncler**, **Children's Place**. Bearish: **Nordstrom**, **Capri Holdings**, **Tapestry**.

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[The Retail Tracker](#)

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## Bio-engineering: 'A Resolution Revolution'

### Healthcare / Technology

The ability to re-engineer matter is coming out of science labs and into the commercial world - enabled by new scientific instruments such as electron-force microscopes, neuromorphic chips and simulation, which reveal in sharp relief the activities and patterns among atoms and molecules, viruses and bacteria, living cells, neurons and genes at high resolution. Features: **Thermo Fisher Scientific**, **Autodesk**, **Samsung** and several plays on the materials themselves.

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# Corning (GLW)

## Technology

Cuts sales/EPS estimates for Q120 and FY20 even further below consensus forecasts. Q1 will see a slower than normal start for Optical and LCD Display Glass sales due to broadband capex pressures and panel maker inventories. Concerns also remain re. fiber and optical cable pricing pressures given industry oversupply.

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# L Brands (LB)

## Consumer Discretionary

A split may be the only way to save the ship as the death spiral at VS continues. 20-year Beauty veteran and former LB merchandising executive, Leslee King, is uniquely qualified to provide insights into BBW's history, state of business, and future outlook as a stand-alone specialty retailer in a crowded Beauty landscape.

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[Retail Republik](#)

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# Netflix (NFLX)

## Communications

Lowers revenue and EBITDA estimates given slowing subscriber base assumptions amid intensified streaming competition and no further price hikes until 2022. Contrary to popular opinion, the company will not reduce spending on content. FCF will not turn positive until 2024. TP \$275.

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# Qualcomm (QCOM), Skyworks (SWKS), Qorvo (QRVO) & Mediatek (2454 TT)

## Technology

Based on Westlake's primary research and the feedback from handset OEM professionals, 5G roll-out in China and Korea is faster-than-expected. Expects at

least in line 4Q results and 1Q guidance and positive revisions through 2020 at these handset semi companies.

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## Tesla (TSLA)

### Consumer Discretionary

Very bullish outlook for the company's China business. The introduction of locally-produced and lower-priced products will drive a step change in sales volume and market share; deliveries to grow by more than ten-fold from current levels. Supercharger network remains a critical bottleneck.

SRR offers clients access to proprietary data re. registrations, lead time, pricing and supercharger data.

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## Thor Industries (THO)

### Consumer Discretionary

Attended the Cleveland RV show and gained insights from dealers about sales trends, believes the company will benefit from better than expected retail demand this year. Bullish set-up with a drastically improved inventory situation driving less promotional activity and further margin expansion. Also turned bullish **Camping World**.

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[Northcoast Research](#)

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## — Japan

### How 5G shakes up Japan

Key theme featured in Pelham's flagship 42-page report on the outlook for Japan in 2020. 5G will change the relationship between the online and offline business worlds profoundly. It is set to change our perspective on automation and may even lead to a new keiretsu system. Identifies the forthcoming battlegrounds, key participants and likely winners and losers.

## — Australia

### Afterpay (APT AU)

#### Financials

Huge opportunity in 'Buy Now Pay Later'. Obvious and valuable benefits to both merchants and consumers. Income to grow at 50-70% p.a. over the next few years as it penetrates the US and UK markets. TP A\$57 (74% upside).

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## — Emerging Markets

### Asia Games Market: Top Predictions for 2020

Asia will be home to 1.5bn gamers in 2020, worth over \$65bn. New entrants (**Alibaba** & **Bytedance**) to challenge current heavyweights. PC gaming will resume growth. Global game companies move production into SE Asia. Asian governments to support and focus on gaming/esports industry...and more.

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### Indian Financials: Worrying Times Ahead

Expects a further weakening of bank credit metrics. There is no meaningful pass through of lower RBI rates to companies. Monitor Non-Bank Financial Companies - while Bank NPLs accelerated during FY19, NBFC NPLs grew even faster. India's largest NBFCs gearing alarmingly high (avg is 529%; several at +800%).

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### EM Equity Fund Analysis: Russian Popularity

Russia regains position as the largest overweight among active EM investors. Financials (**Sberbank**) and Communication Services (**Yandex**) are the key overweights. **Norilsk Nickel** sees the biggest ownership increase (+9.3% in last 12 months).

Other key themes: LATAM hits max overweight going into 2020; Consumer Staples exposure contracting and 'The **Alibaba** Dilemma'.

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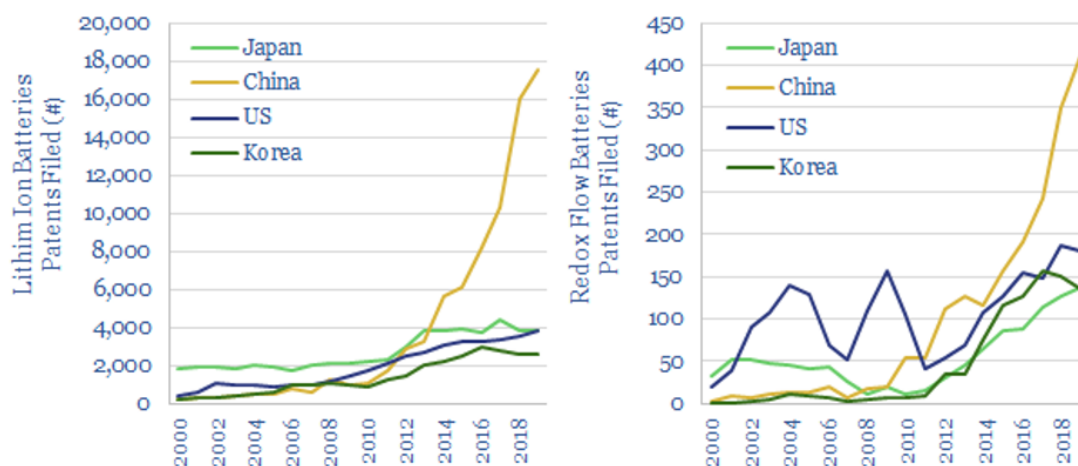
[Copley Fund Research](#)

## Macro Research

### — Chart Of The Fortnight

### Saturated Renewables & A New Horizon

Redox Flow batteries are emerging as the most exciting new opportunity. 900 patents were filed in 2019, doubling since 2014 (below right), whereas solid-state and molten battery research slowed 60-70%.



This matters as traditional renewables markets are reaching saturation, increasing the need for grid-level storage. Data shows redox flow batteries are the technology to watch.

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[Thunder Said Energy](#)



## — Developed Markets

### It's Not QE

Really, it isn't. Last Fall's repo market turbulence was triggered by the Treasury's withdrawal of \$250bn in bank reserves. Confusion about the market effect of the Fed's consequent actions stems from an underappreciation of the centrality of interest-on-reserves to the Fed's post-crisis operating regime. IOER was irrelevant for the years in which rates were effectively at zero. It is very much relevant today.

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### US Equities: Overpriced, Overbought, Overrated and Going Up!

US stocks are expensive, sentiment is bullish, positioning is crowded and in the medium term, US equities will generate sub-par returns and underperform other major markets. However for 2020, US equities will definitely outperform bonds and they will not underperform other equity markets - investors should expect solid returns.

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### UK Inflation

Inflation should unwind in Jan-20 and the seasonal looks set to surprise positively next year. Underlying pressures still appear to have troughed, but the backwards-looking MPC can highlight the subdued headline of 1.3% as supporting its dovish detour. Look out for a mid-2020 trough at 1.1% after a bounce in Q1.

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### Ride The Monetary Wave

Short-term monetary growth has turned up in the US, Japan and China while remaining flat in the Eurozone. Australia's rebound has been particularly strong. Expect economic data to surprise further on the upside, with this environment now favouring more pro-cyclical assets.

## TIP of The Iceberg

Investors have stepped up purchases of inflation-linked bonds (TIPs) in response to the premise that the Fed will let consumer prices run above target. The reflationists will again be wrong - prices, wages and long-term interest rates will continue to surprise to the downside. Stick to STRIPs not TIPs.

## Honey, Have You Fed The Market?

The timing of the Fed's balance sheet expansion relative to rebounding global growth is clouding the minds of many pundits. In fact, the S&P 500's gains are nearly fully-explained by rebounding global growth and are what we should expect given past episodes.

## The Meaning of Boris

The general election makes the UK more attractive to international investors, but little has changed for domestic ones. Internal models are clear: if you believe the UK will prosper outside of the EU, buy Ireland.

## — Emerging & Frontier Markets

### Unthawing China

China has seen solid growth in non-traditional measures of finance (agg. share of Total Social Financing accelerated to 45.7%) counter the slow growth of New Bank Loans. The persistent liquidity shortage is in the early innings of being ameliorated. China's credit impulse is slowly becoming unthawed in favour of a first half recovery in growth.

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## India: Not à la Modi

India is in a worrying situation. Poor policies, the fall in shadow banking, and stretched public sector borrowing levels limit the room to manoeuvre. Modi's watch will only worsen the intricate links between banks and the state - the opposite of what is needed. INR to fall 10% against USD in 2020.

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## Russia's Changes

New budget amendments are not a cause for worry for Russia's sovereign credit and there is plenty of fiscal room for the social spending hike. Additionally, Oreshkin's appointment will not threaten CBR independence.

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## Brazil & Colombia: The Stars of LATAM

Emerging Markets to outperform Developed Markets in the midterm, with LATAM performing the best - especially Brazil and Colombia. Technical elements advocate for a correction of USDBRL below 4.30/4.50 towards 3.70/3.60 and USDCOP below 3600 towards 2800/2700.

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# ESG

## Oil and Gas

The key attributes to industry growth are M&A and partnership activities which are found to be the path for sustainability and operational efficiency. More recently, ESG (accounting for 9% of total industry events) has made its impact on industry performance and we are witnessing a major shift to more clean and sustainable energy sources.

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## Baptism of Fire

Australia's recent bushfires are not all bad news for the country's poor carbon emissions record - even the world's worst polluters are capable of change. Beijing is a prime example of how aggressive regulation and the adoption of cleaner fuels can bring about noticeable change.

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# Commodities

## The Fad Year of Platinum Group Metals

2020 could be shaping up as the "fad" year for PGM's with rhodium up 60% and palladium 30% in Jan. The PGM market has undergone significant change with less ways to gain exposure today, from the 2008 era. There's nevertheless interesting optionality at either end in the spectrum: in Norilsk, the established producer, and Ivanhoe, the wannabe.

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## Large Crude Oil Declines Ahead

Elliott Wave analysis. Crude tested downside target of 57.45+/-, measuring the completion of a five-wave impulse downtrend (from Jan high of 65.65). Price rejection afterwards confirms a short-term counter trend rally towards 60.4+/-, but the damage has been done - expect larger declines ahead (towards 37.70+/-) which is completely against consensus.

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Providers, which cover all the major Asset Classes, Sectors and Regions utilising a variety of methodologies.

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