



Independent
Research
Forum

The Cut - Edition 78

Introducing the very best of Independent Research
from the IRF Providers

Events

IRF Lunch: Energy, Metals & Mining with Matthieu Raimbault & Anish Kapadia

High Conviction Equity Ideas for 2020 - sub-sectors to be discussed include: large integrated European oil majors, tanker shipping, shale oil, US/internationally exposed oil services, European steel, European listed large diversified miners and global LNG.

The Lansdowne Club - 11th February at 1.00pm

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[Palissy Advisors](#)

IRF Lunch: Divesting out of oil & towards new opportunities with François Boutin-Dufresne

Will outline the current trends in divestment, fossil fuel fundamentals and suggest a new investment narrative for the massive rebalancing of capital that will occur.

The Lansdowne Club - 19th February at 12.30pm

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[Sustainable Market Strategies](#)

IRF Lunch: Global liquidity risks in 2020 & beyond with Brian Pellegrini

The offshore dollar market has become a key pillar of global growth, taking the place of US multinational banks for generating global liquidity. The global dollar shadow banking system is operating through opaque channels using techniques that are in regulatory grey zones. A trade war or Fed tightening could serve as primers for a liquidity crunch which causes much more economic damage than the primer did.

The Lansdowne Club - 6th March at 12.30pm

[Intertemporal Economics](#)

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IRF Events Calendar

Company & Sector Research

— Europe

Telecoms: Huawei contagion risk

BT shares sold off following news that it would bear costs of £500m to meet the UK's new restrictions on Huawei equipment. This report helps investors trying to understand the breakdown of this cost; which other EU operators could be exposed and what the potential magnitude might be. Expecting more countries to announce restrictions in the coming months.

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Ferrovial (FER SM)

Industrials

Robert Crimes and his team provide their most detailed report to date on 407-ETR pricing. Main value add vs the Street is the estimation of Cost of Time savings to determine user Willingness to Pay - suggests tolls could increase 2-3x. TP increased to €52 (78% upside).

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Ingencio (ING FP)

Technology

Ben Harrington, financial journalist and founder of Betaville, broke the story of Ingenico as a takeover target back in October and then revealed to subscribers that **Worldline** was making an approach the following month. This week we found out that Worldline is buying ING for \$8.6bn. +40% gain since Ben's initial 'Uncooked Bulletin'.

[Request info](#)[Betaville](#)

InterContinental Hotels (IHG LN)

Consumer Discretionary

A significant value opportunity in a business that has seen radical and permanent change in recent years. As a quality compounder it should have more optimism priced in than an implied Y3 margin ratio of just 81.

[Request info](#)[Willis Welby](#)

Partners Group (PGHN SW)

Financials

Unique analysis of underlying assets shows a rapid rise in valuation and less conservative discounting of NAV have helped to boost performance fees and enhance the perception of a high quality earnings stream. Industry headwinds are mounting and a lack of investment will see margins fall much faster than expected. (40% downside).

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Maritime model portfolio doubles in 4 years

Since inception (Feb 16) the DMFR Portfolio has delivered a 99.5% total return - generating significant alpha against both sectoral (DJGSH is down over 4%) and broad market benchmarks (MSCI up c.46%). Currently holds 12 stocks in the portfolio - top pick remains **Star Bulk Carriers**; also features **D/S Norden**, **GasLog**, **AP Moller-Maersk** and **China Merchant Ports**.

[Request info](#)[Drewry Maritime Financial Research](#)

— **North America**

What's been holding spinoffs back?

Boyar's analysis shows that over the past decade spinoffs have dramatically under-performed the S&P 500 due to the growth of passive investing, increased shareholder activism and the 'pruning of corporate deadwood'. However, it is still possible to benefit from spinoffs by embracing momentum, looking for involuntary departures and following the parent company's money. **InterActive Corp** viewed positively as is the spinoff of **Fox Corp**.

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[Boyar Research](#)

Chemicals: PE capacity increase already baked into pricing

Polyethylene prices will rise this year despite the large capacity additions planned. Current consensus estimates are undemanding, with valuations nearing floor levels. Top picks: **LyondellBasell** and **Braskem**.

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[Alembic Global Advisors](#)

Machinery & Equipment: Channel work utilising expert networks

Channel Dynamics leverages its network of private company executives across the industrial complex to understand if phase 1 of the trade deal will be enough to offset widespread softness across the US oilfield. Can also provide clients with a better understanding of the supply chain disruptions stemming from the Coronavirus and factories going idle in critical Chinese manufacturing hubs.

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[Channel Dynamics](#)

Alteryx (AYX) & Splunk (SPLK): Positive checks

Technology

Having spoken to their Systems Integrator contacts, they are all seeing a strong start to the year for AYX - some (especially Global Systems Integrators) are seeing a near doubling of AI/ML Proof of Concepts scheduled for Q1. AYX has become the standard analytics engine for AI/ML.

SPLK - No signs of a slowdown, effective new pricing and acquisition rumours (**Cisco**) continue.

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AutoZone (AZO)

Consumer Discretionary

Channel checks indicate that starting in Nov 19 auto parts retailers started to realise rapidly decelerating sales growth because of competitors selling parts over the internet at discounted prices. AZO with a heavy concentration of DIY walk in trade is the most susceptible to this growing threat.

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Discover Financial Services (DFS)

Financials

Carlos Minetti (EVP/President Consumer Banking) purchased 3,000 shares at \$73.74 - first open market purchase despite being with the company for 19 years and a regular seller previously. It also follows purchases from the CEO, CFO and Chief Legal Officer, making it the largest cluster of buying seen in the stock. Stock rank upgraded to +1 (highest conviction rating).

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IBM (IBM)

Technology

Trading stock only - not investable longer term. Will beat numbers for the next two quarters on a conservative guide, but then the Y/Y comparisons will become real/meaningful. RedHat will not help the company turn the tide in its favour in the new hybrid cloud world.

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Novanta (NOVT)

Industrials

Management will be forced to reset unrealistic longer term targets (incl. organic sales growth, adj. EBITDA and market share). Signs of a material revenue pull-forward; inventory levels surged recently and the company will have to sacrifice margins to grow sales in the future.

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[Gradient Analytics](#)

Qualcomm (QCOM)

Technology

Earnings call this week dents bull thesis - 1) March quarter internals disappoint Street expectations due to lower device units and 2) lower margin and June quarter soft guided as 'in line' to March quarter vs Street expectation of revenue up 10% sequentially.

Recent ideas also include: Long **Advanced Micro Devices, Western Digital** and **LAM Research**.

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[Lynx Equity Strategies](#)

Sprint (S)

Communications

280first platform detects meaningful language changes in security filings. Those changes often reflect undisclosed internal discussions, intentions, or active projects. One recent example is Sprint, where the changes in 10Q filing suggest they are actively engaged with **T-Mobile** to renegotiate the transaction price.

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[280first](#)

Tesla (TSLA)

Consumer Discretionary

Nathan Weiss' analysis was on the money once again - correctly predicting Q4 results would beat consensus forecasts. In his latest note, Nathan explains why the Street are significantly underestimating the degree to which deliveries will decline in Q1; expects revenue \$5,440m, GAAP/non-GAAP earnings \$-2.21/\$-1.10 - all well below consensus.

— Japan

Tosoh (4042)

Materials

Initiation report - earnings to recover after two years of decline. Key to this will be the company's involvement in quartz glass and ultra-pure water for the semiconductor industry. Recent coverage also includes:

NEC - implications re. EU proposed moratorium on facial recognition.

Fanuc - orders weak and no recovery for Robomachines.

Cybozu - Olympic-paced growth for an Olympic year.

— Emerging Markets

Macau Casinos: Worse GGR trend since 2010

Investors might look pass the short-term Gross Gaming Revenue misses initially (Coronavirus), but valuation contraction is called for due to longer-term issues that will severely impact the sector. Q1 GGR to decline 34% YoY and ~15% for FY20. EBITDA margins to plummet pushing casinos' profit down >50% and triggering dividend cuts for highly levered casino operators.

China online delivery & Coronavirus challenge

Eleme (**Alibaba**) and **Meituan** are struggling to meet surging demand. They both have government support to supply a nation of 1.4bn house-bound consumers, but the Coronavirus is curtailing their ability to meet this demand.

Commodities

Energy: 2020 high conviction themes

Distillate demand is so weak globally that the highly anticipated IMO effect will be minimal in H1. Energy capital expenditure spent outside of the US will accelerate quicker than anticipated - LNG a key theme. Exposure to heavy oil producers is warranted - focus on high FCF names: Buy oil integrated. Sell/Short US onshore exposed oil services as US growth to be much lower than expected.

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Australia's gold mines: A song of fire & drought

Evolution Mining has announced a number of initiatives to offset rainfall concerns and Cadia (**Newcrest**) explained it likely doesn't expect operations to be impacted by droughts. Australian gold mines finished strongly in 2019 with no appreciable cost inflation. Positively, this sets the gold sector up strongly for improved margins so far in 2020 and provides ongoing support for further M&A.

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[Global Mining Research](#)

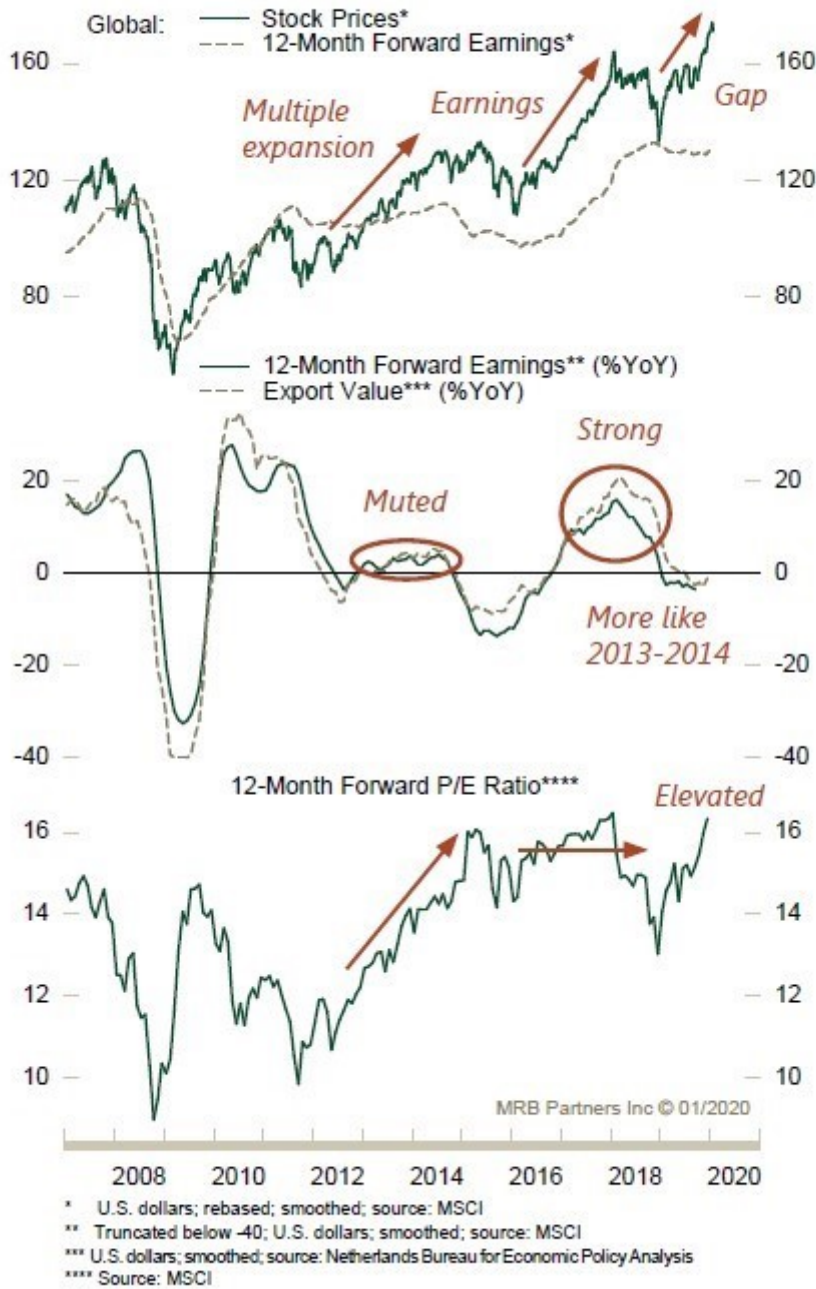
Macro Research

— Chart Of The Fortnight

Global equities hit an air pocket

Global equities have stumbled after surging over the past year, but the critical question is whether this will prove temporary or the start of something more durable and ominous.

Global Equities Hit An Air Pocket



Stocks have moved decisively ahead of the improvement in global trade, earnings and manufacturing confidence. The rally since the beginning of 2019 has occurred almost entirely due to a multiple expansion. This leaves an air pocket and less of a valuation cushion to absorb bad news, such as the recent Coronavirus news. Stocks will prove much more volatile and prone to corrections than was the case during H2 2019.

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— Developed Markets

2020 to be a year of US outperformance

Don't miss out on the exciting year ahead! IRF hosted an event with Gerard Minack in which he explained that 2020 will see high single-digit returns for equities as the US will continue to outperform. It will only be in 2021 when the Fed tightens that the situation will change, and the 3-5 year outlook will see the investment world being turned upside down.

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Catastrophic financial market downside...

America may be carrying on as usual as China comes to a standstill due to Coronavirus, yet this will not last. The stock market will accelerate to the downside in the days ahead as the country marches towards a market dislocation that could mirror 1929 in the economic impact. Every nation, company and individual will be affected in the next 12-18 months as the financial markets slide towards catastrophe.

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[Global Forecaster](#)

Favour European stocks with foreign exposure

European stocks with high foreign exposure have outperformed the broader index over the past few years. Europe Inc. is highly competitive, and the progressive intra-continental integration has enabled the national corporates to retain and gain market share within the region's borders and beyond. This trend will continue.

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Trump's new high

Trump's new Gallup is at a new high for his presidency, which mirrors trends in polling services. At day 1,099 the rating stands at 49%, higher than W.Bush, Obama and Clinton on the same day - all three won re-election.

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Ignore the stock market, acceleration in growth has been modest

The 30% stock market gain in 2019 does not imply more than a modest acceleration in economic growth. A unique formula taking into account the complex three-way relationship between S&P performance, VIX, and the following year's economic growth suggests a 2.3% increase in real GDP in 2020, relatively low compared to the 2% experienced in recent quarters.

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Brexit's tense negotiations

The negotiations between UK and EU over the future European partnership will be tense, as the UK will try to escape "regulatory alignment" with the EU, especially on sensitive matters such as data protection, financial services and corporate taxation, before an agreement is eventually reached.

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[Rosa & Roubini Associates](#)

Japan GDP growth to fall

Japan's surprising above-trend growth in 2019 left the economy with a still positive output gap. Although this indicates rising inflationary pressure and that the BOJ should be seeking to tighten it is in fact a consequence of various combining unique factors. Expects growth rates to slow down going forward.

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[Andrew Hunt Economics](#)

— Emerging Markets

China: An epidemic of funding

The arrival of the Coronavirus will exacerbate Beijing's worries about funding. The government has stepped in more actively to encourage lending to private firms & SMEs via various shadow credit intermediaries, particularly state-owned non-bank lenders. These types of shadow lenders have risen since mid-2019 and the trend will accelerate as certain funding channels face pressure in the post-outbreak environment.

[Request info](#)[China Beige Book](#)

Coronavirus to hit many companies

Efforts to contain the virus risk slowing growth in China, with some growth estimates being halved. 27 different companies mentioned the virus in earnings calls this week. As the virus spreads, more and more companies with a global outreach will suspend operations.

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Philippines: State of economy & outlook

Despite the economic rebound being in full swing, the quality of growth remains lacklustre. Credit growth has turned a corner whilst domestic demand and infrastructure growth lends support to the economy. 2020 will be a critical year for tax reforms ahead of the next presidential elections.

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India WPI sees strong boost

India WPI up strongly in Dec (2.6% up from 0.6% in Nov). Forecasts for strengthening annual US CPI shows that India WPI will follow suit in 2020.

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ESG

Cheap flights, expensive pollution

Ryanair's banned advert is the latest example of the growing greenwashing phenomenon. ESG performance (and liabilities) will be boosted when regulators finally crack down on corporate greenwashing.

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The link between Coronavirus & global warming

The nyktomorphic effect is prevalent right now with the Coronavirus scare. Such events start with the plausibility of fear being pushed by scientists, who are fooled into contradicting or suppressing all opposing evidence in pursuit of their righteous cause. Viruses aren't the only victim of this; the IPCC (Intergovernmental Panel on Climate Change) demonstrates a perfect example of the nyktomorphic effect in full play.

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