



Independent
Research
Forum

The Cut - Edition 79

Introducing the very best of Independent Research
from the IRF Providers

Events

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

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[Intertemporal Economics](#)

IRF Events Calendar

Company & Sector Research

— Europe

AA (AA LN)

Consumer Discretionary

Wolfgang Felix (founder of Sarria) with 18 years' experience in Distressed and HY credit, sees an opportunity as AA stabilises membership numbers and focuses on cashflow generation to pay down debt. Expects the company to purchase further bonds in the market before the release of FY numbers. Any fall-out from an adverse FCA decision will be far more limited than market currently fears.

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BP (BP LN)

Energy

Global Forecaster's scenarios for the oil price, Big oil valuations and BP's share price remain on track - predicting a drop in prices of over 50%. Mr Looney's initial actions appear delusional. Carbon neutral by 2050 will be way too late to satisfy critics/investors. Use of carbon offset programmes to make them carbon neutral will not work.

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Games Workshop (GAW LN)

Consumer Discretionary

As featured in 'The Daily Retailer', a daily email briefing written by Nick Bubb, on the UK Retail sector and company developments: the hobby retailer Games Workshop has been incredibly successful in recent years, but for a company with a market cap of £2.3bn, does management have enough skin in the game?

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RIB Software (RIB GR)

Technology

Another successful piece of investigative journalism by Ben Harrington, founder of Betaville, as **Schneider Electric** makes an offer to acquire RIB. Ben first highlighted a mystery buyer was eyeing the company in early October - shares have gained ~35% since then.

2020 has started well for Betaville following news of **Worldline's** proposed acquisition of **Ingencio** - they first alerted clients back in October; shares +40% since then (see last ed. of The Cut).

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— North America

Non-GAAP distortions under IFRS

Examines the worryingly increasing use of non-GAAP measures, key areas where IFRS accounting has changed and the inflationary effects the changes are having on reported metrics. First sector in this series looks at Airlines: Non-GAAP metrics examined (EBITDA & EBITDAR) and accounting topics (IFRS 16 & ASC 842). For a full list of reports [click here](#).

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[Veritas Investment Research](#)

Financial industry deals with reality

Those who hold to the idea that the stock market tells everything about the economy and financial institutions might be surprised to read how those institutions are in the throes of challenges and changes that border on a soft revolution. This report addresses how the Great Restructuring, which has disrupted industry after industry, is being addressed by the financial world.

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[Inferential Focus](#)

Value investing is dying, Value with Catalyst is alive and well

Since inception The Edge has seen their Model Portfolio outperform the HFRX Special Situations Index by +89%. High conviction calls last year included: **IAA**, **Perspecta**, **Naspers** and **Ferrari**. **Madison Square Garden** and a spinoff of their entertainment business is one to watch this year.

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[The Edge](#)

DIY Building Products Index - improving outlook

Northcoast's proprietary monitor is designed to track demand, inventory and pricing developments providing clients with an accurate picture of how DIY markets are trending on a real time basis. Latest results bode well for Buy-rated: **PPG Industries**, **Owens Corning** and **GMS**.

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Janus Henderson Group (JHG)

Financials

Legg Mason has recently been acquired for \$50 per share (23% premium). JHG pays 5.63% dividend, authorised \$200m buyback in Feb-20 and trades at 6.63x EV/EBITDA multiple - a significant discount to LM transaction at ~9.5x. Similar valuation equates to a \$36.5 share price (43% upside).

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Lyft (LYFT)

Communications

Recent underperformance is overdone, especially in the context of the rally in **Uber** shares. Q4 results/outlook continue to highlight the benefits of a single segment focus on transportation services. Early-2020 guidance leaves room to prove conservative given operating leverage inherent in the model and cost discipline demonstrated.

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[Cross Research](#)

Splunk (SPLK)

Technology

Company to beat expectations (FY19 earnings 4th Mar) - will become the de facto standard in the hybrid enterprise datacentre. New product pricing removes a major irritant for customers and will accelerate data growth. Summit's revenue and EPS estimates are also significantly ahead of consensus for both FY20 and FY21.

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[Summit Insights Group](#)

Synchrony Financial (SYF)

Financials

While bull's excitedly talk up prospects for new programme launches, deal wins, the belief of continuing strength in the domestic consumer and a stronger, more

defensible portfolio, Hedgeye's analysis concludes that SYF is much more like an ice cube on a hot summer's day with both secular and cyclical headwinds poised to accelerate the melt.

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T-Mobile (TMUS) & Sprint (S)

Communications

Why the judge got it right and implications for the industry. Deal paves the way for TMUS to fundamentally disrupt the US Wireless market. It also eases the path for **Dish** to do the same. Provides updated valuations on all the relevant companies as well as developments on C-Band and local/federal litigation.

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[New Street Research](#)

Weatherford International (WFTLF)

Energy

Emergence from bankruptcy has created a substantial disconnect in valuation with its three larger competitors. Now has a much leaner B/S and a focus on cost reduction (save \$1bn+ p.a.). A slowdown in activity in the US is being replaced with greater activity in international markets. TP \$57 (100% upside).

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[BWS Financial](#)

— Japan

Head starts - which Japanese companies can ape Tesla?

One explanation behind Tesla's recent remarkable stock price rise is that the auto industry somehow gave the company a 10-year head start. Storm Research highlights a number of Japanese small & mid caps they believe are enjoying a similar advantage in their respective industries: **Menicon, Amvis, Japan Hospice, eGuarantee & Giftee.**

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Takeda Pharmaceutical (4502)

Healthcare

Continued growth momentum in Plasma Derived Therapy (PDT) business is crucial until potential launches under the company's "Wave 1" pipeline assets start to contribute meaningfully (from FY23-24). PDT to grow at a FY19-24 CAGR of 7% to \$5.5bn, contributing 20% of top line (up from ~12% in FY19). 28% upside.

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[Pathology Associates](#)

— Emerging & Frontier Markets

Coronavirus data & Electronics supply chains

Cascend's Wuhan Coronavirus models suggest official reports are too low, and there are more than 200,000 infections globally, cresting in late March. Electronics supply chains are at risk with circuit boards in Q1, but Chinese demand is the longer-term issue.

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[Cascend Securities](#)

UPL (UPLL IN)

Materials

USPs gone awry - Innovator-tag, acquisitions and accounts book are touted as UPL's USPs. Indeed there are takers for these, but do these retain their character of USPs when shown the mirror? Find out in this report which surgically deals with the accounting policy, acquisitions, R&D and much more.

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[India Independent Insight](#)

Sampath Bank (SAMP SL)

Financials

This company has become the first major Sri Lankan bank in several years to announce a serious dividend (11 LKR/share) - thanks to a good Q4 combined with the positive implications of the recent tax cuts. Price/Book at lowest level in a decade. 86% upside.

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[Churchill Research](#)

Macro Research

— Chart Of The Fortnight

Federal Reserve & Treasury Liquidity Flows vs S&P 500 Index

The Fed will now systematically reduce liquidity. The NY Fed has announced term repos will be reduced by a further \$5bn to just \$20bn, and the max. size of overnight repos will fall a further \$20bn to \$100bn - hinting at another liquidity reduction.



The Fed's offering has been oversubscribed in past months, and that has helped power the stock markets to new highs. The Fed's balance sheet will now expand until March 2020; expect equities to have a serious fall in March.

— Developed Markets

US high yield is not priced for rising risk

High yield to underperform as a result of the significant reduction in demand for the riskiest corporate debt tranches (packaged together as collateralised debt obligations, or CLOs). This could have a ripple effect on the real economy given the importance of the leverage loan market as a source of corporate funding.

US: Stagflation to turn into slowdown

The US economy is in a state of stagflation and will soon see a transition into a slowdown. The halt of activity in China will be deflationary, a fact exacerbated by unprecedented loss of demand from Chinese customers. Sectors to avoid include communications services, utilities, financials and industrials while consumer staples, materials, real estate and energy show relative strength.

US: Will Tax Cuts 2.0 be more important than we thought?

The House is not in play yet and Democrats have a big funding advantage in key races, but as Democrats publicly fret about the down-ticket damage a Sanders nomination could do - including the loss of the House, look for interest in Tax Cuts 2.0, which would require a Republican House majority, to increase.

UK economic review

Despite export sector performance, the UK economy remains far from strong. Private sector CAPEX trends will not revive due to weak levels of capacity

utilisation within the economy and global uncertainty. Household savings rates nearing a long-overdue shift. GDP growth and CPI to hover around 1.5% in 2020.

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[Andrew Hunt Economics](#)

Boris Budget to create a Reaganite boom

The subjugation of Chancellor Sajid David will bring forth harmony between Boris and a loyal Rishi Sunak. Fiscal rules will become flexible in the pursuit of growth and the first Boris Budget will deliver a Reaganite boom.

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[Blonde Money](#)

French reforms for the people

Macron should be able to pass his pension reform and move towards more people-friendly reforms ahead of the 2022 Presidential election, which he is poised to win. As long as France remains fiscally prudent, French OATs will continue to be considered close substitutes to German Bunds.

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[Rosa & Roubini Associates](#)

Ignoring Italy's rift

There is no real threat to the Italian governing coalition and going forward investors should ignore the increasing noise about the rift. Renzi is using the current discussion to increase his visibility, but has absolutely no interest or convenience in forcing a snap election.

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[Eyes-Only](#)

Australia: The labour market Down Under

Unemployment and utilisation rates in Australia are at the same levels last seen during the peak of the financial crisis, but are still considerably lower when compared with historical data. The labour market has not cracked yet.

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[FlatRock Associates](#)

— Emerging Markets

Ignore the doomsters: Global growth rebound remains intact

EM, DM and global aggregate indicators show substantial monetary policy tailwinds are already baked-in (along with broadly easier financial conditions and cheaper fuel costs). At worst, the virus will only dampen/delay growth slightly, and counter-intuitively could end up accentuating the rebound on the back end should the PBOC come to the party in a more compelling way.

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[Topdown Charts](#)

Coronavirus = Global recession

Financial markets are fooling themselves with the belief that China's Coronavirus epidemic is just a 9-day wonder. Wuhan is China's equivalent of Chicago in the US. Its lockdown will impact world trade, as the virus pushes the global economy into recession.

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[The pH Report](#)

New model sell signal for EM currencies

Global financial markets are on the brink of another EM meltdown. EM currencies haven't moved much yet, but have a brand new model downward forecast. USD to strengthen vs. EM - short the Chinese yuan, Thai baht, HK\$, Korean won. Commodity currencies are also new shorts, incl. AUD and CAD.

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[Belkin Report](#)

PBOC in the wake of Coronavirus

Whilst stock markets have been strong, commodity markets have been weak. Forex markets are taking a definite risk-off tone, contrary to the PBOC's efforts to support risk appetite. This argues a contrarian position of long EM, commodities and commodity producers. Whatever the outcome of Coronavirus, investors can win.

[Pennock Idea Hub](#)

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Coronavirus presents a buying opportunity

All the leading indicators pointed to a decline in global trade activities in the wake of COVID-19. Expects Asian central banks to cut rates and offer fiscal stimulus (i.e. tax cuts and cash giveaways) to boost the economy.

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[Bondcritic](#)

Mexico: Keeping AMLO at bay

The Bank of Mexico cutting rates slowly is going to result in a mammoth cycle of easing far beyond what markets and Banxico envisage. Instead of keeping AMLO at bay, Banxico is enabling him.

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[Talking Heads Macro](#)

ESG

Understanding ESG risks for gold mining investors

A ground-breaking report considers mining companies in light of an ESG mindset, covering metrics such as water, waste, land, biodiversity and health & safety. **Agnico** and **Polymetal** lead the way in mining companies with low greenhouse gases, whilst **Sibanye** and **AngloGold** have seen improvements of up to 35% and 27% respectively.

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[Metals Focus](#)

Agriculture's inevitable demise

Investors are slow to embrace the unstoppable forces of environmentalism and sustainability. The agricultural sector has escaped the focus on emissions reduction, yet new technological innovation is starting to disrupt. New high-tech foods will replace traditional animal products, tilting the entire industry towards bankruptcy. Early investors in alternative foods shall be richly rewarded.

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Commodities

Coronavirus effect already discounted by oil price

The Coronavirus effect has already been discounted by oil price; diminishing supply over the near-term could still push the oil price higher by mid-year. We have seen a bottom in oil prices for now.

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[The Capital Observer](#)

Copper: Short-term recovery, but long-term uncertainty

After the exaggerated drawdown in copper prices in January, even a modest improvement in China sentiment could drive a rebound. However, evidence of abatement in the spread of Covid-19 in the next few weeks will have to emerge for copper prices to regain positive momentum.

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[Economic Perspectives](#)

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