



Independent
Research
Forum

The Cut - Edition 80

Introducing the very best of Independent Research
from the IRF Providers

Events

IRF Lunch: Global Forecaster with David Murrin

As the coronavirus has started to affect business supply chains and threatens to suppress global growth (i.e. Apple's warning and German GDP), please join us for a policy lunch with David, Author of 'Breaking the Code of History'.

The Lansdowne Club - 17th March at 12.30pm

[Request info](#)

[Global Forecaster](#)

IRF Lunch: Global Speculations with Tim Bond

Topics covered will include the current cyclical position of the global economy and recession probability. Why DM economies and productivity are growing at the slowest pace since the start of the Industrial Revolution and how asset valuations suggest that portfolio real returns over the next decade will be zero or negative.

The Lansdowne Club - 26th March at 12.30pm

[Request info](#)

[Tim Bond Global Speculations](#)

IRF Events Calendar

Company & Sector Research

— **Europe**

Accounting Shenanigans: Provision Release added

to Dragonfly red flags

Dipping into the "cookie jar" of provisions to boost income/suppress expenses is a well-known accounting shenanigan. [Dragonfly](#) (StockViews' machine intelligence system) now includes a proprietary feature which extracts the data from annual reports, looking for provision reversals which impact the P&L. Currently 47 companies (out of c.1200) have been flagged with the highest risk rating.

[Request info](#)

[StockViews](#)

Getlink (GET FP)

Consumer Discretionary

Key value-add vs the Street is Insight's long term forecasts and stand-alone DCF valuation for new hi-speed rail routes - on which they have become increasingly positive. Forecasts passengers from new routes to increase to 5.5m in 2025 and to 9.1m in 2032. Raises TP to €27.6 (+60% upside).

[Request info](#)

[Insight Investment Research](#)

ISS (ISS DC)

Consumer Discretionary

Following the company's FY19 results, Teun Teeuwisse explains why even management's 'adjusted' figures missed (already lowered) expectations. The company also cut guidance for 2020, but Teun believes further significant revisions will be required. With his short thesis unfolding as expected - ISS is on track to become the next **Aryzta**.

[Request info](#)

[IT Equity Research](#)

Telecom Italia (TIT IM)

Communications

Upgrades to Buy - stub equity value (ex. Inwit, TIMP) is now at the cheapest level ever - outlines several upcoming M&A events that will help to close this gap as well as expecting a positive inflection in wireline trends this year (41% upside).

[New Street Research](#)

[Request info](#)

— North America

Fat spreads = Unusual opportunity for active managers

Explains why active managers in the Small & Mid Cap space have one of the greatest opportunities in history to outperform their benchmark by omitting or being short a cohort of egregiously overvalued firms with atrocious fundamentals. This is a follow-up report to Kailash's widely read - 'S&P 500 vs Russell 2500: Will the Herding Continue?'

[Request info](#)

[Kailash Concepts](#)

INTL FCStone (INTL) to acquire Gain Capital (GCAP) - Guess who had the exclusive?

Betaville strikes again - providing the inside scoop in late Jan that a mystery bidder was mulling an offer for GCAP. A few days later, they reported that INTL was the mystery acquirer. End of Feb, the two companies announced an all-cash deal at \$6.00 per share (70% gain in a month).

[Request info](#)

[Betaville](#)

New Healthcare short: Based on anomalous insider activity

Idea generated from Gradient's highly predictive Equity Incentives Analytics methodology. These reports are only published 2-3 times p.a. and the track record is very impressive. The last 5 ideas predicted significant share price declines for **Amarin**, **US Cellular**, **WW Int**, **Supernus Pharma** and **Magellan Health** with avg 3-mo/6-mo/max drawdown returns of -18.6%/-32.4%/-38.5%.

[Request info](#)

[Gradient Analytics](#)

Aptose Biosciences (APTO)

Healthcare

Top long idea for 2020 - already up over 50% YTD and multi-bagged since highlighted 6 months ago. Owns two kinase inhibitors that are uniquely positioned and differentiated in a sector that has seen substantial M&A (incl. previous Buy-rated **ArQule** recently acquired by **Merck**). Since inception in 2012, ~25% of Bios long ideas have gained over 100%.

[Request info](#)

[Bios Research](#)

Bunge (BG)

Consumer Staples

Continental Grain, who have board representation through Paul Fribourg (Director), increase their holding in BG by 25%, spending \$41m (655k shares at \$62.89). This follows multiple other Director purchases at similar prices. As a result, Smart Insider are ranking the stock +1 (highest rating).

[Request info](#)

[Smart Insider](#)

HP Inc (HPQ)

Technology

Rare win/win situation for investors. Go it alone strategy offers \$3.25 in earnings power backstopped by **Xerox** merger optionality. Explains why the company's latest strategy update gives shareholders a strong reason to think twice re. any deal with XRX. TP \$32 (50% upside).

[Request info](#)

[Gordon Haskett Research Advisors](#)

Luckin Coffee (LK)

Consumer Staples

Consensus forecasts would require 50% annual comp-store sales growth (2020 and 2021) - this is simply not credible (and has nothing to do with the coronavirus impact); 25% is much more realistic, with losses and cash burn continuing through year-end 2021. Also expects sequential and YoY declines in transacting customers per avg store in the most recent quarter.

[Request info](#)[Quo Vadis Capital](#)

Macy's (M)

Consumer Discretionary

Believes the company beat expectations in Feb. Key factors being an emphasis on clearance items, increased weekly promotions and a heavy push of the loyalty programme (increased sales of new perks esp. at Platinum level). Also seeing localisation efforts starting to really show up in stores and Backstage departments were far busier vs recent checks.

[Request info](#)[Mosaic Research](#)

Schrodinger (SDGR)

Technology

This recent IPO was highlighted by MYST following discussions with buy-side investors. A leader in AI/ML that reduces drug development time. Bill Gates/D.E. Shaw own ~50% of company. Technology used by all the Top 20 global drug companies. SaaS revenue model (96% retention; ~\$100m ARR). Huge potential to grow customer base, increase penetration with existing clients and raise prices.

[Request info](#)[MYST Advisors](#)

Vermilion Energy (VET CN)

Energy

Veritas warns that the dividend will need to be slashed in half. This comes despite the company never having reduced its monthly pay-out before. Faces a cash shortfall of c.\$205m this year and limited flexibility due to high debt levels.

[Request info](#)[IRF Event](#)[Veritas Investment Research](#)

What's behind Japan's #1 share in China's games market?

Highlights China's clear changing climate for import games. Exploring the reasons for Japan's phenomenal recent success, whose domestic games market has become more prominent in the world as it has evolved from a console society to a mobile society and now is embarking on esports.

[Request info](#)

[Niko Partners](#)

Anritsu (6754 JP)

Industrials

Even in the face of substantial supply chain bottlenecks, companies would focus their production efforts on the higher margin, high-end handsets and that means, on 5G product. Anritsu is well-placed to benefit and now trades at just 12.7x consensus FY20 EV/OP.

[Request info](#)

[Pelham Smithers Associates](#)

— Emerging & Frontier Markets

China Industrials: Lost sales will not be recovered in 2020

Silk Road's latest survey shows businesses, on average, now only expect to recoup ~50% of lost sales. 2020 numbers are no longer going to shift between quarters, but will have to be revised down for the full year. Highlights the impact on US/European Industrials stocks exposed to China. Construction Equipment, Autos and Discrete Automation are most at risk, while Process and Elevators will be more resilient.

[Request info](#)

[Silk Road Research](#)

China's ERP market report: Cloud 2.0

The current economic slowdown and national security concerns provide the necessary ingredients for the development of China's ERP industry. Leading

providers compete to build an ecosystem of cloud solutions for businesses. **Kingdee** strives to become China's **Salesforce** and **Yonyou** has a strong hold on large enterprise clients while attempting to break into the mid-sized enterprise market.

[Request info](#)

[Horizon Insights](#)

Tencent (0700 HK)

Communications

Has seen a very strong performance for its top games in both game and ad revenue, as well as robust demand for its cloud business. Among the 10 top-grossing games in Jan, 6 were from Tencent. The ad spending on their popular games grew ~300% YoY during this CNY period. Gaming related revenue was 41% and 38% of total in 2018 and 2019E.

[Request info](#)

[Westlake International](#)

Tiger Brands (TBS SJ)

Consumer Staples

Dominant market position with S.African consumers spending 10% of their total annual spend on TBS products. EBITDA will increase by 17.6% in FY20 just from disposing two loss-making businesses. **PepsiCo** paid 13.8x EBITDA for a TBS competitor last year; equates to a target price of ZAR313 for TBS (84% upside).

[Request info](#)

[Reperio Capital Research](#)

Commodities

Energy: Time for an upgrade

Equity market sell-off is overdone, Central Banks are/will react and OPEC will back stop oil at c.\$43 WTI. Now is the time to buy quality, high conviction names with a focus on FCF. Favourite stocks include: Integrated - **BP**, **Suncor**. E&Ps - **Lundin Petroleum**, **AkerBP**. Oil Services - **Schlumberger**, **CGG**. EDIT even more bullish following latest news from OPEC meeting.

Bullish Iron Ore & Copper

Commodities to resume their bullish trend started in 2016. Copper (HG1) recovery expected above 245 towards 295 then 332/350. Iron ore (IOE1) consolidation since mid-2019 is expected to be close to an end - rise above 617/570 towards 900/1000.

Macro Research

— Chart Of The Fortnight

US REIT sector valuations reach all-time high

Never before have such extremes in this asset class been observed. This of course has a lot to do with the shocking plunge in bond yields, which is a real tailwind short-term. However, investors do not appreciate the “risk sandwich” facing the asset class for both US and global REITs.



— Developed Markets

CEIC Novel Coronavirus Monitor & Data

Explore historical and latest data, news and analysis surrounding the outbreak of the Novel Coronavirus (their free Monitor is available [here](#)). For over two decades, CEIC has been a trusted partner to help navigate the world of macroeconomic data, used as the basis for business decisions, economic analysis, long-term plans and more.

[Request info](#)

[CEIC](#)

Adding a predictive Cross-Asset perspective...

Cross-Asset flows predict moves in assets BEFORE changes in fundamentals. TenViz generates Buy/Sell signals across over 15,000 securities with an extremely impressive track record re. market timing and subsequent performance - e.g. S&P 500 last 3 calls: 10th Feb 20 Sell (related to money flows in Safe Assets/Energy); 26th Dec 18 Buy (China Credit) and before that Sell 8th Oct 18.

[Request info](#)

[TenViz](#)

Vulnerability and risk

The hit to growth is likely to reveal the underlying vulnerability of corporate finances. In turn, these vulnerabilities may become reflected in risk premia moving higher, reversing the cram down effect of monetary policy settings. After a shock on this scale, it is not at all obvious that perceptions of risk will return to pre-crisis levels.

[Request info](#)

[IRF Event](#)

[Tim Bond Global Speculations](#)

The inevitability of No Deal

Despite current progress, Britain is heading towards No Deal by June. The UK will weaponise the Irish border to extract concessions from the EU. An inevitable deal will occur later, although the UK needs to use deadlines to its advantage

and avoid preventing a Deal. H2/2020 unpredictability may even tip the scales to the UK's advantage.

[Request info](#)

[Blonde Money](#)

Britain: Further inversion inbound

Britain's yield curve is inverted 90 days out to 12 years. The flight to safety against the possibility of a hard Brexit and recession will bring forth further inversion, even if the BoE does not cut rates for a while to conserve firepower.

[Request info](#)

[High Frequency Economics](#)

Japan - What not to do with fiscal policy

Japan demonstrates why fiscal deficits are a necessary antidote to secular stagnation. The country faces low investment, low productivity, no wage pick-up even in a tight labour market, and more. Dec Q419 productivity was weak, but the key now is the labour market response; unluckily, as the 1997 tax hike coincided with the Asia crisis, this time around COVID-19 strikes.

[Request info](#)

[Minack Advisors](#)

US elections: Biden's big night

Improves chance for the Democrats to coalesce around a more moderate ticket and defeat Trump, perhaps even retaking the Senate. A notional Biden v Trump race allows investors to avoid having to discount more roiling and transformative proposals like Medicare for All, extreme versions of a Green New Deal, or new taxes on wealth and capital formation.

[Request info](#)

[IRF Event](#)

[Capital Alpha Partners](#)

— Emerging & Frontier Markets

A Minsky moment to occur in China

Coronavirus will bring forth a Minsky moment in China - the level of financial imbalances will be exacerbated by the virus as resources will run out leading to

a systemic crisis 10 years after the GFC. Investors looking to play a potential bounce in EM equities should bypass China (strategically bearish) and focus on Thailand, Indonesia and Brazil.

[Request info](#)

[Ecstrat](#)

The underestimation of COVID-19

Models show that we are massively undercounting COVID-19 (6.3m cases compared to reported 85,000), but this is great news: symptoms are milder than expected. China's capacity and demand will be driven up by Jun 2020, and the virus will have no impact in 2H20.

[Request info](#)

[Cascend Securities](#)

Tipping over China's balancing act

Successive income shocks to a protracted debt squeeze in China have been serious, and COVID-19 could be the tipping edge. To make matters worse, all borrowers are being hit at once within China's opaquely interconnected financial sector. Report examines how China's debt problems are being managed and the subsequent evolving risks and implications.

[Request info](#)

IRF Event

[Totem Macro](#)

EM bonds and buoyant Frontier Markets

A rising gold price, falling tax rates, less red tape and the fact that few EM's struggle to service their debt, points to strong EM bond performance. In addition, expects Frontier markets to spring back into life later this year: Vietnam, Sri Lanka and Nigeria are among those to watch.

[Request info](#)

[Churchill Research](#)

ESG

If a tree falls in a forest...

Commercialising CO2 offsets from forest projects is an exceptional opportunity for fossil fuel retailers, which can absorb 15bn Tpa of CO2, for \$50/ton costs, uplifting NAVs by 15-25%. This places forests among the most economic ways to decarbonise global energy by a factor of 6x.

[Request info](#)

[Thunder Said Energy](#)

Board diversity and long-term ROI

A recent study examining the impacts of board diversity on long-term ROI, claiming that it is as important as revenue growth, is misleading and inconsistent. States across the US are enacting legislation on such matters based on outlandish claims. One certainly can make many arguments for corporate board diversity, but the data so far is spurious.

[Request info](#)

[The Political Forum](#)

IRF works with 212 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](#)

Alexis Vatistas

Alexis@independentresearchforum.com

+44 (0)203 405 7123

Bloomberg IB / avatistas6@bloomberg.net

[LinkedIn](#)

Jenny Metta

Jenny@independentresearchforum.com

+44 (0)203 405 7126

Bloomberg IB / jmetta2@bloomberg.net

[LinkedIn](#)

Hamish Adam

Hamish@independentresearchforum.com

[LinkedIn](#)

The Cut is, for the purposes of Recital 29 to MiFID II, non-substantive material; it does not constitute 'research' within the context of MiFID II. It selectively provides compact historical summaries of associated Independent Research Providers' analyses and projections. Independent Research Forum does not substantiate nor endorse any respective such views or commentary, nor does it extend substantive analysis of any securities in any respect. This publication exclusively reproduces established instances of historic third-party commentary and opinion.

This publication references companies upon which research providers have 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 © 2020 Independent Research Forum, All rights reserved.

You are part of the IRF contact list.

Our mailing address is:

Independent Research Forum

68 Lombard Street

London, EC3V 9LJ

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](#).