



Independent
Research
Forum

The Cut - Edition 81

Introducing the very best of Independent Research
from the IRF Providers

In light of these unprecedented conditions The Cut takes a different format. IRF has put all physical meetings on hold and instead is hosting a series of conference calls detailed below, which also forms the Macro section.

IRF hosted our first call with **David Murrin** of [Global Forecaster](#) earlier this week, where he talked of now being a defining moment in history. How fragility existed even before the virus. That China and Asia will emerge in better shape than the West. Europe is a dysfunctional conglomerate. America is a declining power. The equity market will see losses of the magnitude only seen in the great depression - Sovereign debt crises (Italy) - Hyperinflation as central banks cannot fix it. For the full recording click [here](#).

Below are latest views from a selection of Providers with the option of requesting a call with them to explore their work in more detail:

Shannon Cross of [Cross Research](#) will discuss the impact of Covid-19 on Technology supply chains and end demand, particularly focusing on **Apple, Microsoft, HP, Dell, VMware, CDW** and **Flex**. This team have deep industry knowledge across Technology sectors and carry out widespread channel checks. **1400 GMT on 23rd March** [Join Call](#)

Paul Hodges of [The pH Report](#) highlights 'the debt-fuelled ring of fire' which has started to be opened up as central banks have lost control, as have OPEC, whilst a major paradigm shift is underway, and the world will be very different when the recession ends. **1500 GMT on 24th March** [Join Call](#)

Tim Bond of [Tim Bond Global Speculations](#) covers topics including the current cyclical position of the global economy and extent of the recession. 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. [Request Call](#)

Phil Suttle of [Suttle Economics](#) highlights that a strong real USD appreciation will make the now unfolding US recession worse; once the position squaring in USD funding markets is completed, the longer-run excess supply of USD as the global reserve currency will be the bigger force (helped by the fact that investors will no longer have a yield pick-up over other assets, including gold).

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Julian Bridgen of [MI2 Partners](#) shows that the risk-off dollar rally is a highly destructive napalm run. Cross-currency basis swaps are signalling a tightening of dollar funding. If history is a guide the dollar should start a multi-year decline which should lead to much needed reflation across the world.

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Michael Howell of [CrossBorder Capital](#) shows how we are in a giant liquidity crisis and central banks are compelled to act and that we should therefore expect massive amounts of additional QE. The US Fed balance sheet is set to break \$6trn. The next round of coronavirus crisis will strain USD forex swap and funding markets as supply-chain payments fall. We should expect near term firm USD and later a much stronger gold price and steeper yields.

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Andrew Hunt of [Andrew Hunt Economics](#) discusses how economic policy makers are coping in this crisis. He shows that the ECB needs to recognise the individual needs of its clients. The Capital Key and Stability rules need to be forgotten for now to avoid a severe Euro crisis. The BIS / IMF / World Bank need to be mobilised to promote international co-operation to restart the flows to EM and ensure cross border bank funding markets do not face a damaging liquidity crisis.

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Harry Colvin & Chris Watling of [Longview Economics](#) aim to measure the extent of this downturn by comparing the other 8, currently larger, S&P corrections over the past 90 years. Their analysis shows that this equity pullback is probably well advanced due to overall measures of fundamental excess in the US economy being relatively low, an immediate policy response on a large scale and evidence of Covid-19 being containable, lower fatality rates than first thought and the fact it is likely to be mitigated by a vaccine within the next 12 months.

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Dr Charles Su of [Horizon Insights](#) provides his expert opinion on the Chinese economy and how policy will react to the drop in GDP (Q1 -10% YoY). Measures they will take to compensate the loss in demand, e.g. a substantial increase in fiscal deficit/special purpose bond quota. Policymakers are very cautious with macro leverage. It is still possible to see a benchmark deposit rate cut, but the

room will be limited.

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Mark Latham of [Commodity Intelligence](#) displayed great prescience at an Independent Research Provider conference earlier this year telling investors the market was grossly underestimating the impacts to the real economy of Covid-19. And here we are. In addition, and as an expert in the field, he detailed accurately the price path for oil. Find out where oil heads next...

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Company & Sector Research

— Europe

Closing sells, searching for buys

StockViews model to seek out mispricings is coming into its own and has led them to concentrate predominantly on sell ideas since 2017. However, in recent days they have closed sell calls on **Future**, **IWG**, **JD Sports**, **Cineworld**, **dormakaba** and **Subsea7** - all generating significant positive alpha. Given their generalist mindset they are hoping to help spot the best opportunities with a margin of safety.

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[StockViews](#)

EU Pharma not immune from Covid-19

This sector is not as insulated as the market currently expects. Drug companies' commercial teams will face considerable constraints in accessing doctors and hospitals, as well as their own restricted staff movements. Analysis also includes the financial impact as a result of slower growth re. launch products; **Roche** will be least impacted, **AstraZeneca** hardest hit.

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[Intron Health](#)

Telecoms: One of the best defensive plays

Favourite names: **Sunrise**, **Orange Belgium**, **Masmovil** and when the recovery begins **Vodafone** and **Altice**. Recent sector reports have also covered: CapEx

requirements for wireless/wireline from the new reality of a lockdown. Implications of shutting down the copper network - a key driver of future cashflow growth with **Telefonica** ideally placed. **Iliad** UG to Buy following impressive results.

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[New Street Research](#)

Capita (CPI LN)

Consumer Discretionary

'Excruciatingly cheap'. Willis Welby, specialists in expectations analysis, calculates that the shares are consistent with long-term EBITM of around 3%, which is far too cautious. There are financing issues, but the group may not need capital markets again until 2022, and any covenant issues from more extreme situations would be waived for the time being.

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[Willis Welby](#)

Future (FUTR LN)

Communications

Multiple red flags highlighted here by forensic accounting specialist, Paul Nagy. The company's organic revenue growth is just one example - where the FY19 figure was reported as 11%, but was actually 4.9% and saw a material decline in H2 (1.8%) vs H1 (8.1%). Also questions the company's accounting treatment re. the reduction in FV of Purch's brands (a previous acquisition).

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[PN Finance](#)

— North America

Liquidity & Solvency risk: Short candidates

Two models with particular relevance at the moment focus on negative EBITDA/cash burning, speculative companies with low cash balances relative to commitments and ones with high debt, low cash, high near-term cash commitments. **Carvana** and **Wayfair** are two of Two Rivers' favourite shorts.

Since inception (2010), 75% of their short ideas have produced significant short alpha - several went bankrupt.

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[Two Rivers Analytics](#)

Retail forecasts shattered

SW Retail Advisors estimates a ~50% revenue drop in Q1 (ending Apr), Q2 30-40%, Q3 30% and Q4 10%. Stores will remain closed for ~30 days (2x as long as current forecasts). Recent analysis also includes: Implications of rent reductions on **Simon Property**; top picks following the shutdown (UGs this week): **TJX**, **Lululemon** and **Inditex** and maintains a Negative rating for **Kohl's**.

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[SW Retail Advisors](#)

Virus impact on IT spending

Deals are now being delayed, future projects re-evaluated - seeing the biggest impact re. on-premise deals that include hardware as opposed to SaaS or hosted/cloud services deals. Channel contacts report customers are now changing to one year vs longer-term contracts. Vendors are quickly shifting budget dollars from travel and conferences to digital marketing.

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[Sales Pulse Research](#)

Pairing DuPont (DD) long vs 3M (MMM)

Materials

Current market dislocation has created a substantial valuation gap between the two companies. DD better positioned re. business profile and leverage, including a significantly higher direct % of sales to China. In addition, DD can more forcefully tackle their cost structure, be more aggressive on buybacks and has considerably less PFAS liability than MMM.

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[Gordon Haskett Research Advisors](#)

Anaplan (PLAN)

Technology

Considered to be a 'best of breed' SAAS provider that has strong tailwinds of data and digitisation in organisations. Recent growing pains no different to those seen at many software companies that Abacus has covered. Expects +30% growth for the next several years. TP \$68.

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[Abacus Research](#)

Apple (AAPL)

Technology

Cascend's data shows that the iPhone supply chain in China has snapped back solidly - directly refuting views it is still shut and suggests 5G phones could be available if the company decides to move forward. Also fits in with their wider Covid-19 analysis which shows that it takes ~3 months to peak and then starts to subside.

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[Cascend Securities](#)

Cheesecake Factory (CAKE)

Consumer Discretionary

Forget the corona-crash, any activist who devours a large portion of America's adored dining colossus is in for a sweet potential payday. Jim Osman, an expert in Spinoffs and Special Situations, explains how simple operational fixes, embracing a franchising model and international expansion will result in a significant share price re-rating.

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[The Edge](#)

McDonald's (MCD)

Consumer Discretionary

Wrongly considered a 'safe-haven' stock. Two key bull arguments have now reversed - aggressive price mix in US and robust international operations. This is on top of Hedgeye's original short thesis - CEO not having the respect of the Franchisee system, growth accelerators not working and inherent risk associated with operational issues/hidden leverage.

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[Hedgeye](#)

Sealed Air (SEE)

Materials

2019 EPS grew \$0.32, but driven by \$0.39 from price/cost spread for commodities in contracts and \$0.09 from share repo - both will reverse in 2020. Potential clawback on prior Diversey sale threatens EPS by \$0.25 and related receivable there has \$0.06 in EPS exposure. Multiple lawsuits are an issue and SEC's inquiry is expanding.

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[Behind the Numbers](#)

— Emerging & Frontier Markets

Covid-19 & China eCommerce

RedTech's 1Q20 Flash Survey offers a snapshot of expectations for the economy, salaries, total spending and online spending from a sample of 1,000 Chinese consumers. The results reveal a sudden drop in economic, salary and spending expectations across the board. However, online spending expectations held up relatively well, which bodes well for **Alibaba** and **JD.com**.

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[RedTech Advisors](#)

China Consumption: Food supply chain

Quarterly sector report from Horizon Insights - including latest Covid-19 impact. They continue to be very bullish re. both the frozen food and hot pot condiment sectors where their recent surveys show demand remains strong. Companies highlighted include: **Anjoy Food, Teway Food, Sanquan Food** and **Yihai**.

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[Horizon Insights](#)

Turkey: Significant re-positioning potential

Active fund allocations here have fallen a long way from the highs of 6 years ago. However, 2019 saw relative stability and the recent drop in oil price should put the country back in the minds of EM investors. Highlights GEM manager favourite **BIM Birllesik**, as well as companies with low positioning levels and

positive recent fund activity: **Garanti Bank, Turk Telekom** and **Ford Otomotive**.

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[Copley Fund Research](#)

Samsung Electronics (005930 KS)

Technology

Consensus operating profit of KRW60trn (2021) is ~30% too high. Virus inflicted demand destruction will not only impact the consumer verticals but also HyperScale spend. Negative operating leverage will impact its wider components business. Competition in memory, display and in the smartphone vertical will restrict the bullish margin inflation rhetoric.

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[Adnaan Ahmad Research](#)

Shoprite (SHP SJ)

Consumer Staples

Management is sensibly now reviewing alternative operating models for their African business. Primaresearch believes they should focus on a smaller number of key countries and capital should be redeployed to fund an accelerated expansion of Checkers. Furniture business should be exited. Increases TP to ZAR139.00.

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Commodities

Decarbonised power: How much wind and solar fit the optimal grid?

Renewables should not surpass 45-50%. By this point, over 70% of new wind and solar will fail to dispatch, while incentive prices will have trebled. Batteries help little. They raise power prices by a further 2-5x to accommodate just 3-15% more renewables. The lowest-cost, zero-carbon power grid, comprises 25%

renewables, 25% nuclear and 50% decarbonised gas, with an incentive price of 9c/kWh.

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[Thunder Said Energy](#)

Iron ore: Better value after market sell-off...but is it enough?

Having remained positive on iron ore throughout 2019, GMR became much more cautious earlier this year due to valuation concerns, the start of the Chinese coronavirus and forecast production increases. This 33-page report provides comprehensive supply/demand, price and company analysis.

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[Global Mining Research](#)

Oil: What happens now?

Oil was recovering from 18-year lows on Friday but may not have much headroom. There are three potential circuit-breakers on the horizon. What are the chances of one of those tipping points occurring and when? Vandana Hari, a regular commentator on oil markets on CNBC and Bloomberg provides the answers in her Vanda Insights' weekly market macro analysis.

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