IRF Independent Research Forum

The Cut - Edition 84

Introducing the very best of Independent Research from the IRF Providers

Please find below summaries of recent calls:

Naresh Chouhan - Intron Health - **European Healthcare** - **COVID-19: Epidemiology analysis, herd immunity and what that implies for an exit plan from the lockdown** - Transcript - Audio

Naresh initially discussed the death rate from COVID-19. Looking at the Diamond Princess and Iceland where test rates were high, he ascertained that the death rate is somewhere between 0.5-1.5%. He argued that some of the stats being seen elsewhere were misrepresentative as there is a gap in testing. For example, in the UK they are only really testing people who are going into hospital, so they are missing all the mild and asymptomatic cases. On the Diamond Princess, the statistics showed how valuable social distancing was in minimising the R0. Looking at this death rate he asked the question of what are the justifiable economic costs of these lockdowns? Naresh suggests that it is now hard to justify the economic damage caused by the lockdown when you look at the relatively low number of deaths. He emphasised that lockdown was important to ascertain whether we had adequate healthcare infrastructure in place and to minimise panic, but that going forward it is now time to reopen the economy.

Regarding herd immunity - the current level is low single digits at best. The treatments that are on offer are only for patients who have been hospitalised, there is nothing available as a preventative or prophylactic treatment. Therefore we will need to wait for a vaccine to detain this virus, as in order to keep R0 below 1 you would need two thirds of the population to be immune to the virus, especially with the uncertainty surrounding reinfection and immune response. To ensure a reduction in the death rate, we need to improve care for the elderly and vulnerable and ensure that they are shielded for probably the next 18 months.

Naresh went on to discuss the mitigating factors, the possibility of compulsory health passports to ensure free movement of healthy people and contact tracing for people who have caught the virus. He believes that the closing of borders helps with containment of the disease, as many countries who have seen a resurgence of the virus, e.g. China and Singapore, have seen this as a

result of reinfection and not reseeding. He is predicting a return to office working shortly, albeit with social distancing in place and perhaps proportional office working on a rotation in order to help track infections.
Intron Health's research going forward is going to be focused on reinfection and what that means for immunity, because their analysis suggests that if we have 20-40% immunity in the community that should lead to relatively unrestricted movement and economic activity.
Companies discussed: GlaxoSmithKline, Sanofi and Gilead.

Brian McCarthy - Macrolens - **US China relations** - **Don't fight the Fed. The policy bridge, particularly SME loans, should be sufficient to limit supply side destruction and allow the US a V-shaped economic recovery. Bullish risk assets. China policy broken however** - Transcript - Audio - Slides

Brian believes the worst is behind us; news flow is progressively less bad and the policy response sufficient that he expects a steady reopening of the US economy and remains tactically long risk assets, mainly US equities. The key stimuli being the $660bn extended in small business loans with the proviso that if companies take back all employees in June, they need not pay back the loan. In effect, free money, and the main factor influencing Brian's view of a V-shaped economic recovery as the supply side will not be severely disrupted once the economy reopens. Brian acknowledged that the bull view from here can afford no further slippage on the path to reopening. Clearly, policy measures in total will raise indebtedness, perhaps taking US government debt-to-GDP from 105% to 125% this year. This is only sustainable in a world where the Fed hits and exceeds its inflation target. With continued inflation undershoots no longer tolerable, the next business cycle should better resemble the 2000s boom period rather than the disinflationary 2010s. Don't fight the Fed. On China, Brian see's policy broken, no stimulus and the real possibility of the demolition of the SME sector given a 10% decline in nominal GDP 1Q and no reduction in lending rates. Capital outflow restrictions will tighten as the US-China decoupling accelerates which has the potential to be very negative for HK and Taiwan. Given the policy paralysis in China the only saving grace would be a big devaluation on the dollar, not Brian's base case. His investment stance is avoid EM Credit and European equities where in both cases a bail-out is needed, and go long US equities. US election concerns may soon dominate, with the correlation between the pace of economic renewal and electoral prospects serving to greatly amplify market moves in either direction.

Below the Commodities section you will find a selection of additional calls that IRF has hosted. While all previously hosted calls are available on the IRF website and can be accessed here:

Previous Conference Calls

Please find details below of upcoming calls:

Tuesday, 5th May at 1600 BST
Mike Rothman - Cornerstone Analytics - **Oil: Where do we go from here?** - It has been a crazy ride for oil market participants and despite historic production cuts by OPEC+ strong headwinds will continue to weigh on the sector. A substantial imbalance has dominated the market, as over-supply and under-demand are now the new normal. With 36 years of experience as an oil analyst Mike offers his expert opinion as crude prices grind to an historic low.
Join Call

Wednesday, 6th May at 1500 BST
Raoul Pal - Global Macro Investor - **The unfolding: The three phases of the recession and the investment implications** - The Liquidation, The Hope and The Insolvency. Raoul will lay out his case as to why we might see the biggest global insolvency event of our lifetimes despite massive monetary and fiscal responses from central banks and governments and even with economies opening up to some extent. He will also discuss the potential for a strong dollar rally to become a wrecking ball, adding to the debt deflation dynamics currently underway and the potential for negative rates in the US.
Join Call

Thursday, 7th May at 1500 BST
Brian Pellegrini - Intertemporal Economics - **Don't stand so close to me: Social distancing and the US economy** - Demographic and structural factors will limit economic damage in the US. Consumer debt and small business debt performance will be polar opposites. The most important and lasting effects of COVID-19 will be political in nature.
Join Call

Monday, 11th May at 1500 BST
Stacey Widlitz - SW Retail Advisors - **Investor decisions amid consumer and retail turmoil** - Topics of discussion will include: With COVID-19 impacting daily life across the globe, what are the key changes in consumer habits? Which of these changes will have a deeper, longer-lasting impact on the industry? How are retailers dealing with the absence of physical shopping? What will happen to industry capacity? Which areas offer the best investment opportunities?
Join Call

Monday-Friday, 11th-15th May

Adnaan Ahmad - The Tech Analyst - **1:1 calls available presenting his latest tech views** - Adnaan provides his thoughts on the technology sector in a post-COVID world as well as providing his latest views on individual stocks including Alibaba, Alphabet, Amazon, Apple, ASML, Baidu, Broadcom, Cisco, LaserTec, Mastercard, Nokia, Nvidia, Samsung, Tencent, Visa and Weibo.

Request Call

Tuesday, 12th May at 1500 BST - Further details to come

Phil Suttle - Suttle Economics - Global macro

Join Call

Wednesday, 13th May at 1500 BST

Leland Miller - China Beige Book - **China's rebound already losing steam** - The employment situation at Chinese factories worsened in April from the end of March and the economy is on less solid ground than the official data shows. Approx. 91% of Chinese companies had resumed businesses by late April, but only 4% were operating at full capacity and this is likely to be as good as it gets over the next half year.

Join Call

For those unable to join, a transcript and audio file will be made available.

Company & Sector Research

Technical Analysis & Sector Rotation

Messels - **FTSE 100 stocks & sectors review** - Continues to favour services, healthcare and consumer goods sectors which hold medium term uptrends and maintain outperforming trends. Also seeing signs of improvement in paper & packaging with new relative base action for **Mondi** and **DS Smith**, but prefers **Smurfit Kappa** which renews the relative uptrend. Closes long in **Intertek** - finds resistance from the prior range and starts to lose relative momentum.

RenMac - **US energy sector** - Despite the recent relative improvement, near-term risks remain to the downside. RenMac's 'econ dashboard' is consistent with underperformance and from a chart perspective the sector is stalling short of absolute and relative performance resistance. Sell the rally in these relative laggards: **Schlumberger**, **Occidental Petroleum** and also **Transocean**. For investors looking to go long, buy the dips where there have been relative breakouts: **EQT**, **CNX Resources** and **Cabot**.

The Belkin Report - **Sector rotation** - Belkin's impressive track record continues having consistently provided clients with accurate calls vs consensus forecasts. Cyclicals are bottoming (prev. was short) - hotels, casinos and restaurants will outperform - **Marriott**, **Wynn Resorts** and **Yum! Brands** are highlighted. Defensive utilities and REITs (both prev. long) are expected to underperform.

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— Europe

Flughafen Zurich (FHZN SW)

Industrials

Initiated coverage based on the consequences of several aggressive accounting methodologies. The Street is also materially underestimating the company's largest annual expense (depreciation and amortisation) for 2020 (Gradient's est. is for an 8.5% rise vs 3.9% forecast). Premium valuation is unwarranted.

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Gradient Analytics

Nokia (NOKIA FH)

Technology

Why Trump's 5G China security deadline (Sept) will force Nokia M&A. The Edge founder, Jim Osman, believes an activist should move in to dominate and improve the company before private equity gets its hands on the Finnish firm in a hostile takeover bid. Opportunity for **Qualcomm** or **Cisco**?

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The Edge

Sage (SGE LN)

Technology

Willis Welby calculates a long-term implied EBITM that is just below 20%, which is materially behind both longer-term consensus EBITM estimates and the company's revised target range. That leaves a significant margin for error for a company which has c.90% recurring revenue.

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Willis Welby

— North America

Buying better balance sheets: Could there be a low-risk method to improve your margin of safety?

Kailash presents data to substantiate the conclusion that more cash is not always better. Their proprietary 'Balance Sheet' scoring incorporates numerous metrics including managerial integrity, earnings quality and the use of cash flows to calculate final scores and highlight firms trading at valuations that will fare well regardless of whether we have already seen the market bottom.

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Kailash Concepts

Separating signals from noise

Blueshift specialise in primary market research/channel checks, their researchers are part investigative journalists, part trendsetters and part analysts. Recent coverage includes: Is the deceleration in **Anaplan**'s billings growth a blip or a warning sign? Will podcasts and artist services give **Spotify** revenue upside and set it apart from competitors? Where are the best moneymaking opportunities in the esports ecosystem over the next 12-18 months?

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Blueshift Research

Food Distribution - Channel checks

Suppliers noted that broadline distributors had been the weakest segment of their overall business when looking at foodservice and retail; credit is a major concern (MSD delinquencies expected?). Higher margin independent restaurant sales underperform. QSR and Fast Casual sales trends improved each week in April. Reads were most negative on **US Foods** and **Performance Food Group**.

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Channel Dynamics

Advanced Micro Devices (AMD)

Technology

Expects explosive growth this year due to a unique coming together of superior inhouse architecture, manufacturing muscle at TSMC, powerful partnerships with major customers and a strong B/S. Layering on top of share gains in server and desktops are gains in notebooks as AMD’s 7nm processors ramp later this year. Ahead of the earnings event this week, Lynx raised their TP from the $60s level to the $70s - the highest on the Street.

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Lynx Equity Strategies

Canada Goose (GOOS)

Consumer Discretionary

Extremely positive on the company’s sustaining growth in China - key is to accelerate DTC strategy. Estimates that the Chinese business can grow +70% in FY21. Also reports that the new Spring Collection is gaining momentum with Chinese customers enjoying its lightweight and wind/waterproof features. TP $60.

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JL Warren Capital

CVS Health (CVS)

Healthcare

Trades at less than 9x 2020E EPS - well below its insurer peers (avg 14x); expects this gap to narrow significantly as CVS further deleverages and demonstrates the benefits of its verticalised model and new HealthHUB strategy. TP $98. The stock was highlighted in Boyar's ‘Opportunities in 2020 Sell-off’ (with a special focus on B/S and liquidity profiles); other companies include: **Bank of America** and **Sysco**.

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Boyar Research

EPR Properties (EPR)

Financials

Unique REIT leasing to entertainment venues. EPR has 2 years of revenue on hand and low operating expenses - can cover dividend (18%) for 19 months with no rent coming in. Key tenant **AMC** (17% of total rev.) highly levered but is raising another $500m to help survive the shutdown.

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Behind the Numbers

Hologic (HOLX)

Healthcare

The 280first platform detects meaningful language changes in security filings which often reflect undisclosed internal discussions, intentions, or active projects. For example, Hologic disclosed it had amended its credit facility which suspended its need to comply with covenants - suggesting concerns on its ability to remain compliant. While **MSCI** has just added the risk factor in their filing indicating increased pressure to reduce fees.

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280first

Qualcomm (QCOM)

Technology

The company's QCT and QTL businesses will outperform expectations this year thanks to higher 5G ASP and as volumes increase in the second half of this year. 5G volume rise at **Apple** together with continued mid-tier 5G smartphones ramp at Chinese OEMs will boost operating margins despite lower overall industry smartphone unit shipments.

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Summit Insights Group

TJX Companies (TJX)

Consumer Discretionary

Favourite stock in the sector - EPS power of $3 by 2022 vs $1.37 in 2020. Strong off-mall presence, trade down potential and international exposure; a long-term share gainer. Other top picks include **Dollar General** and **Sprouts Farmers Markets**. Top short is **RH** and also recently downgraded **Five Below** and **Walmart** (valuation call; limited near-term upside).

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Gordon Haskett Research Advisors

USANA Health Sciences (USNA)

Healthcare

Last week's Q1 release reaffirms Douglas Lane's positive stance on the stock. He upgraded the stock to Buy in early Apr (at $70) on the basis that the company was 'uniquely well positioned in the current consumer environment'. 2020E EPS estimate of $4.75 and 2021E $5.50.

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Lane Research

Vail Resorts (MTN)

Consumer Discretionary

The skiing industry has been facing stagnant demand for several years and the company was suffering revenue weakness even before any Coronavirus impact. Acquisitive growth strategy will be an issue going forward. Deleveraging will be brutal. Will violate net debt to EBITDA covenant this year.

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Two Rivers Analytics

— Japan

Pulses racing for telemedicine / medical IT plays

Telemedicine stocks are the apple of many an investor's eye right now, but that doesn't mean it is too late to join the party. As PSA's EPR software analyst Lindsay Whipp explains, the inevitable long-term shift to digital healthcare could get a boost from the demands of COVID-19, creating a 'needs must' scenario which many a patient and healthcare institution has to date been reluctant to contemplate.

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Pelham Smithers Associates

— Emerging & Frontier Markets

GEM fund positioning: China popularity

Actively managed funds have been rapidly increasing their stakes in Chinese consumer discretionary stocks with allocations hitting new all-time highs. Chinese financials are also proving popular as they are being considered a safe haven. Highlights **ANTA Sports**, **Yum China**, **Kia Motors**, **Postal Saving Bank** and **China Merchants Bank** as less well held stocks that are attracting interest. **AIA**, while still popular is seeing positions reduced.

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Copley Fund Research

Reliance Industries (RIL IN) & Facebook (FB) deal

Sean Maher has been bullish on RIL reinventing itself as an offline to online ecommerce platform since early 2019. Here he provides his latest thoughts on FB's record minority stake, which endorses the Jio strategy to become 'India's **Alibaba**'. Sean also covers BABA specifically - noting that they are using the pandemic to boost their European presence and examines whether or not they can successfully replicate **Amazon**'s Web Services model.

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Entext

ESG

Returning to work, deepfakes, water and food security

Curation Report's weekly ESG Radar assesses the most pertinent ESG risks and opportunities. Their latest report includes coverage on: Businesses seeking protection from Coronavirus lawsuits. How the virus is bringing the threat of deepfakes to the fore once again. How COVID-19 impacts on water and food a sign of things to come.

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Curation Corp

Commodities

Oil & Gas: Positioning yourself for the next energy bull cycle

Predicts another down-leg in the energy industry, which if they are correct, will then offer great investment opportunities across the board. The window for this bottom is through May. Positioning yourself correctly now will provide for excellent results as the new energy bull market flourishes in the next 3-5 years. Companies highlighted include: **Tourmaline Oil**, **Canacol Energy**, **Vermilion Energy** and **Whitecap Resources**.

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Pennock Idea Hub

The route to net zero

Net zero is achievable by 2050, with atmospheric CO2 remaining below 450ppm, the level consistent with 2-degrees C of warming. Fossil fuel use is 10% higher than today, but the industry has transformed itself, towards the most efficient, lowest-carbon fossil fuels (esp. natural gas), with the remaining CO2 captured or offset. This is the most economical route to an energy transition, per all of TSE's research. Which companies are best placed to benefit...

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Thunder Said Energy

Summaries of previous calls:

Gerard Minack - Minack Advisors - **COVID-19 can change everything - Monetary and fiscal policy; implications for markets and inflation outlook** - Transcript - Audio

Gerard describes markets as not currently offering any rational narrative - positioning, liquidity and behavioural factors are driving them. Equities are increasingly pricing in a best-case scenario for the virus - Hubei template where we get on top of the curve and release economic constraints. This is as consensus forecasts are showing - a terrible second quarter, solid second half numbers and then recouping all the losses by the back of 2021. However, risks around this are slammed to the downside. First, what if it takes more than 3 months to suppress the virus? Second, if there is a re-infection, and third, whether policy measures will even be effective in keeping the economic patient alive. Gerard would not want to chase the market or short it, but as a base case believes we will see a significant sell-off again as the risks in the second half come in to view.
Medium term implications - Gerard has always strongly believed that the next recession would see a shift from monetary led policy to a much more aggressive fiscal led policy. COVID-19 could be the catalyst for this transition. We could see sustained fiscal stimulus back stopped by Central Banks - the helicopter money scenario. These tools will bring down the era of secular stagnation. This will represent a sea change for investors that will switch several of the trends that have been persistent in markets over the last 20 to 30 years. The stagnation era resulted in declining interest rates, so we could expect to see interest rates rise in a new era. If rates trend up, equities are no longer juiced up. Could we finally see the end of the growth stocks and US outperformance trade?! All attractive attributes to sovereign bonds have disappeared - high returns, lower volatility and the diversification advantages. We have been through an exceptional period of inverse equity and bond correlation. It turns out that inflation drives these regimes. If inflation normalises, then the equity bond correlation will become positive, which will knock out strategies such as risk parity. Although this seismic shift could in the longer term introduce the risk of unacceptably high inflation, in the near term the much bigger risk is that of deflation. This shock is going to be deep enough to open-up excess capacity. Unacceptably high inflation would be a 2022-2024 story. There will be an interim period where there is good inflation. Gerard concluded by saying that MACRO IS BACK!

Helen Thomas - Blonde Money - **It all comes to nought - Collapse in velocity of people will cause a deflationary bust before we face any risk of inflation from stimulus reaction and demand recovery; implications for yen, dollar and volatility** - Transcript - Audio - Slides

Helen's assessment of the current crisis is that the economic recovery will take far longer than the market forecasts. The massive fiscal stimulus may have averted a depression but the primary factor delaying recovery will be fear preventing a proportion of the population from returning to normal behaviour i.e. going out and spending. As she puts it, the velocity of people will be permanently impaired. Currently, massive government intervention is distorting prices. This was illustrated perfectly (in the presentation) with a slide showing the DOW having its best week since 1938 whilst more than 16m Americans lost their jobs. This disconnect between Wall Street and Main Street will close with asset prices going lower. Deflation will be prevalent for at least two years before there are any signs of inflation from a return of demand and money supply affects. Helen likes the yen, the dollar and volatility here.

Daniel Tabbush - Tabbush Report - **Global banks: The purge - Credit, liquidity, market risk, in unison** - Transcript - Audio - Slides

Daniel is very negative on almost all of the Bank stocks and believes that we are some way off peak crisis levels when comparing the situation today to GFC and 1990 recessions. US banks in particular have been running down reserves and will take more in the way of provision costs for further bad loans as well as have to replenish their loan reserves to more prudent levels. Credit costs as a percentage of loans, as a percentage of income or assets will be much higher in coming quarters. US banks CNI loans (commercial and industrial loans) have seen huge growth in the last few weeks - over USD 300 billion. Banks have been forced to take on these liabilities for companies drawing down on committed facilities. They would only do this when there is no liquidity, when the outlook looks dire, for example in the travel and energy sectors. There is going to be a greater propensity of NPL formation from that surge in drawdowns and there are capital constraints for banks with the transfer of funds from off balance sheets on to balance sheets and in very meaningful size. Investors should 'watch the fringe', not the blue-chip banks who will be bailed out; look at some of the small US banks where credit card delinquency rates are very high - much higher than previous recessions and this data is before the shutdown.
Exponential growth in NPLs across the world. Some banks are expensing 10 basis points of loans per year. Banks in Japan have had write backs for years and they are only just starting to take tiny, tiny expenses for their bad loans. The banks in Australia and Japan stand out, having some of the lowest levels of credit costs to loans. The banks in Australia are unique as loan to deposit ratios are well over 100% and that means these banks are wholesale funded. Japanese banks including Resona, MUFG, SMFG and Sumitomo Mitsui Trust are seeing huge rises in credit costs. Japan Post Bank invests in securities almost exclusively including a huge amount of US collateralised loan obligations, many of which have been downgraded from AA to CCC.
Interesting piece on banks and insurance companies beholden to the price of

oil. For example, banks in Singapore which have large energy-related loans, mostly in the oil and gas service sector. Highlights DBS, OCBC, UOB, Standard Chartered, HSBC, banks in Texas such as Comerica and Cadence. Hin Leong, Singapore oil trading company, recently uncovered as a major fraud and where ABN AMRO, DBS, HSBC are all facing colossal credit risk impairments.

IRF works with 220 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

Our mailing address is:

Independent Research Forum

68 Lombard Street

London, EC3V 9LJ

United Kingdom