



Independent
Research
Forum

The Cut - Edition 89

Introducing the very best of Independent Research
from the IRF Providers

Macro Research

— Developed Markets

V-shape recovery underway

Bearish concerns about an oncoming bull trap in markets should be assuaged; the market is in a V-shape recovery - the beginning of a new cycle - and the bulls are right. Just be wary of the risks - unlike 2009, valuations are on opposite ends and the capitulation period is much shorter. This time is very different.

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EU's rocky recovery

EU member states are trying to reach a deal on the Recovery and Resilience fund and an agreement will emerge between July and September. Investors should take care not to ignore the political and economic repercussions at national level.

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[Rosa & Roubini Associates](#)

The political Fed

The Fed's zero interest rate policy causes an economic drag as a result of distorted credit decisions. However, politics trumps economics, and it is likely to be in place for years to come.

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[HCWE & Co.](#)

The US freight barometer

Brian Pellegrini examines which indicators to look out for and which are no longer accurate, driven to inaccuracy by an uncertain world. The return of rail

shipments by manufacturing firms will be a key indicator of growth acceleration in upcoming weeks.

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[Intertemporal Economics](#)

Hong Kong: A beneficiary of China's momentum

The Hong Kong manufacturing PMI closed at 49.6 in June - up from 43.9 in May and 47.9 in June last year. Based on the momentum of China's industrial production, which AASE expects to strengthen visibly from the year-end, they believe the Hong Kong PMI will follow suit.

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[AAS Economics](#)

— Emerging Markets

The return of equity euphoria in China

Beijing wants to use COVID as an opportunity for a strategic risk role reversal vis-a-vis the US. Cyclical equities show signs of a rotation back into related sectors, and reflation - a policy priority for 2020 - will favour high operating leverage firms. CSI 300 to increase 20-30% by 2020's end. HK worries remain, but potential US sanctions will catalyse repatriation of offshore Chinese assets. Reform, policy catalysts, stable exchange rate and further conditions required for a sustainable equity rally are examined in the report.

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[PRC Macro](#)

Indonesia: A market you want to own

Whitney Baker provides an in-depth analysis of Indonesia. It has a clean balance sheet, high secular long-term growth prospects, cheap assets and relatively limited inflation/FX impacts signals that it is a market you want to own - new Long in Indo local bonds (10yr, unhedged).

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China's "Embrace the Boom"

Amidst a monumental credit bubble, fixed exchange rate and increasing scarcity of foreign exchange, one positive remains: China is highly levered against the value of the dollar. Macrolens' "Embrace the Boom" theme will be highly

beneficial for China if they can avoid being decoupled. Play CNH and China A50 from the long side.

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India's counterproductive tech nationalism

The government's growing pressure to boycott Chinese goods would be disastrous given the country's structural weakness (although Reliance Industries will benefit). It will only add to the poor pandemic response and oncoming climate change costs that will see India's economic position deteriorate further vs. China.

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Company & Sector Research

Focusing on industry disruption & political risk

Primary Access & Research help clients to understand the risks and opportunities arising from political dislocation, innovation, disruption and industry evolution. They also undertake bespoke research projects, analysis and polling ahead of major political events. Recent coverage includes the [2020 US election](#), post-COVID economic [recovery](#) and related upheaval in industries like [construction](#) and insurtech.

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Accounting red flags: Ageing of Receivables

This is the latest feature from StockViews' machine intelligence system, [Dragonfly](#). Using proprietary NLP they extract data from annual reports to assess the changes in past due receivables, which is known red flag (**Carillion**, **Mitie** etc). Ageing of receivables combined with rising DSO trends score the maximum red flag.

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[StockViews](#)

Why it pays to monitor language changes in security filings

The 280first platform quickly detects these changes which often reflect undisclosed internal discussions, intentions, or active projects. For example, last month (and 2 weeks before the news broke), they flagged how **VMware** was anticipating significant amendments to its **Dell** relationship. In 280first's latest report they highlight changes in the 10K filing of **Brown-Forman** - suggests that the company is seeing less competitive pricing pressure.

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Property Insights: Tomorrow's valuations today

Green Street has launched its Commercial Property Price Indices (CPPIs), covering the industrial, office and retail sectors across 25 markets in Europe. The predictive ability of their CPPIs vs. third-party valuation indices is impressive. These CPPIs are a strong predictor of future MSCI values at market inflection points, with a typical advance reading of 6 months. Their Spot NAVs are also able to predict company-reported NAV changes 6 months in advance.

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— Europe

Reopening recovery: Banks are core, leveraged beneficiaries

This crisis is unlike any other, therefore the recovery should also be. Increasing signs of an upturn in Europe. Banks will be able to rebuild profit as they phase in credit costs over several quarters. The relatively new €1.3trn lending package for EU banks will allow them to gain much needed net interest income, profit and margin - biggest impact will be where margins are lowest (e.g. France/Germany).

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[Tabbush Report](#)

Telefonica Deutschland (O2D GR)

Communications

Downgrades to 'Reduce' - structural headwinds from the eventual migration of the **Drillisch** wholesale contract which O2D is overly reliant on, rising lease payments and ongoing spectrum auctions. Longer-term average EFCF to fall to just €270m/annum, a 40% fall from historic levels. Forecasts a 50% medium-term dividend cut. TP €1.5 (46% downside).

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[New Street Research](#)

DS Smith (SMDS LN)

Materials

Teun Teeuwisse utilises forensic accounting techniques to unearth companies that are manipulating their earnings. His SMDS short thesis continues to play out with the shares down a further 10% following FY results. Key concerns relate to P&L and cash flow adjustments, working capital (incl. factoring/reverse factoring), FCF, acquisition accounting and elevated debt levels.

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[TT Equity Research](#)

Rolls-Royce (RR LN)

Industrials

AIR issued this timely update just before it emerged the company was looking for ways to bolster its battered finances. Highlighted how there would be no return to pre-COVID activity levels until 2023 and fundamentals would remain weak for the next 2 years. Forecasts 2020 EBIT of 200m and 500m 2021. Remains short.

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ATOS (ATO FP), Capgemini (CAP FP) & Tieto (TIETO FH)

Technology

All three companies look extremely conservatively valued - ATOS comes with an implied to Y3 EBITM ratio in the late 50s, TIETO ~60 and CAP mid 70s. They are all priced more like tobacco stocks than technology ones. There may not be clear premium growth and the recent flow of deals can come with messy headline numbers, but underlying financial productivity is strong and these should compound for investors.

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[Willis Welby](#)

— North America

DTC Brand Platforms Index sharply outperforms

Lane's proprietary DTC Index was up +64.7% in Q2. The model is particularly suited for the new COVID-normal. Expects the strong relative earnings

outperformance to continue. The relative P/E ratio for their Index still sits at a 21% discount to the market - not far from the 25% discount in March and 10-year lows of 27%. Highlights **Herbalife**, **Life Vantage** and **USANA**.

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[Lane Research](#)

Rent-To-Own Industry: Supply chain alarm beginning to flash

Channel checks (end market independents and third-party furniture & appliance suppliers) confirms that new safety measures implemented as well as continued manufacturing shutdowns have hindered the replenishment of inventories to a greater than expected degree. Southeast and Midwest are the most at risk regions from this supply issue (vs continued elevated demand). **Rent-A-Center** better positioned than **Aaron's**.

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Casual Dining: Downgrades five names

Having successfully upgraded **Darden Restaurants**, **Texas Roadhouse**, **Cheesecake Factory** and was pounding the table on **Brinker International** and **Bloomin' Brands** in late March/early April, GHRA now see an unfavourable risk:reward - Point of Sale and foot traffic data are clearly slowing. Their latest household survey (polling consumers across the US re. spending/behavioural trends in a COVID environment) also paints a more cautious picture.

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[Gordon Haskett Research Advisors](#)

Retail: Back to School will not look the same

The consumer will no longer be receiving any extra money and layoffs will continue. BTS will be extremely promotional even with inventories very lean. Names that should work on the long side include **Lululemon**, **Macy's** and **Ralph Lauren**. Avoid **Gap**, **Kohl's** and **Tapestry**.

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[The Retail Tracker](#)

Chewy (CHWY)

Consumer Discretionary

A rare long in an abundantly shortable retail landscape - powerful multi-secular tailwinds, coinciding with a once in a generation cyclical (positive) demand shock, will lead to cash flow breakeven this year and GAAP profitability in 2021.

Hedgeye's multi-pronged e-commerce 'model defendability' framework ranks it above **Amazon** and makes **Wayfair** look 'silly'. Massive opportunity re. international growth too. TP \$80 (60% upside).

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[Hedgeye](#)

Ford Motor Co. (F): China operations

Consumer Discretionary

Q2 marks a positive inflection point and ends four years of dramatic underperformance. Efforts to refresh product offering and align production in-line with sales are paying off. Chang'an Ford production and registrations have turned positive Y/Y by ~75% (Apr-Jun) and ~8% (Apr-May), significantly outperforming industry registrations (down ~8% Y/Y). The upcoming launch of the localised Ford Explorer and Lincoln Aviator provides a further tailwind to growth in H2.

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Hilltop Holdings (HTH)

Financials

Concerns re. exposure to high-risk industries, an inadequate allowance for doubtful accounts, signs of further near-term deterioration in credit quality, a potentially inadequate loss-adjustment-expense reserve, the passing of a critical size threshold for SEC regulations, as well as valuation concerns. Recent short coverage also includes **McCormick & Co.** and **Walgreens Boots Alliance**.

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[Gradient Analytics](#)

IBM (IBM)

Technology

Value trap. Most analysts don't realise how much IBM's fundamentals have been deteriorating. Earnings are overstated - real (non-adjusted) earnings have fallen from \$10 in 2015 to under \$7 in 2019. The large Red Hat acquisition (which added \$30bn of net debt and halted buybacks) was supposed to restore growth, however ROIC is declining even faster since the acquisition! Dividend at risk? (over 50% downside).

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[Badger Consultants](#)

— Japan

Media Do (3678 JP)

Consumer Discretionary

Manga fuelled eBook growth is spilling over into written eBooks with COVID-19 acting as a catalyst. The company is in pole position to capitalise. Projected 3-year OP CAGR of +51.9%. In addition, regards its blockchain initiative (with a view to establishing eBook ownership rights and a secondary eBook market) as a positive.

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— Emerging & Frontier Markets

All things China tech...

Adnaan provides his latest thoughts on the impact re. the freeze on **Huawei** and other Chinese tech companies by the US, including any effect on 5G development in China and potentially elsewhere. How rising geopolitical tensions between India and China impact specific companies. He also looks at **YMTC's** NAND project progress and when this could start to become a focus for global investors' attention.

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[Adnaan Ahmad Research](#)

Baidu (BIDU)

Communications

'Buyer Beware'. After five years, the headwinds holding back the core search business are abating. While low expectations could create an opportunity in the company's shares, the most interesting opportunity is at its video site, **iQiyi**, and for that investors can own direct exposure without Baidu's baggage.

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ESG

EU's stimulus: From red to green

As the rest of the world remains distracted, Europe is looking at incorporating shades of green in its monetary and fiscal stimulus packages. Highlights issues re. two major European electric utility companies which get a significant proportion of their power from coal - **Polska Grupa Energetyczna** to suffer the most, while **RWE** will also feel some more heat in the coming months from regulators and investors.

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[Sustainable Market Strategies](#)

Commodities

Supercapacitor: The hero we need

The current consensus hails lithium-ion as the 'winning' technology in energy storage. However, a detailed report from Thunder Said Energy argues that SuperCapacitors will rival lithium-ion to hybridize transport and industry - faster charging, no rare earth metals and less complex recycling make it a much better alternative.

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[Thunder Said Energy](#)

Clean energy: Certified platinum

Platinum demand will recover with help from the transition to clean energy, primarily investment in hydrogen technologies. Prior to 2019 such technologies had posted healthy gains with several noticeable investments announced for upcoming years.

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[Metals Focus](#)

Upcoming calls:

David Murrin - [Global Forecaster](#) - Geopolitics - **The Great Chinese Challenge**
Sean Maher - [Entext](#) - Thematic research with actionable ideas - **Asia Rising: Global tech value chain dominance to drive portfolio reallocation**
Zhiping Zhao - [280first](#) - **Extracting actionable insights from 10Q /10K text discussions**
Teddy Vallee - [Pervalle Global](#) - Global Macro - **Liquidity pocket followed by global growth rocket**
Senior Credit Analysts - [Lucror Analytics](#) - Corporate Credit - **Investment opportunities in Latin American high yield credits**

Charles Su - [Horizon Insights](#) - China Macro / Micro - Recovery picture, Policy, asset allocation and bond market outlook

For further details on these calls and all of our events please see our [Events page](#)

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