IRF Independent Research Forum

The Cut - Edition 91

Introducing the very best of Independent Research from the IRF Providers

Dear <<First Name>>,

Please click below for details of all of IRF's conference calls including with **Niall Ferguson** of Greenmantle, **Raoul Pal** of Global Macro Investor, **Keith McCullough** of Hedgeye, **Gerard Minack** of Minack Advisors and **Julian Brigden** of MI2 Partners and many more high quality Research Providers.

IRF Conference Calls

Company & Sector Research

— Europe

Office Economics: A structural shift in working habits

Tim expects companies to shed over half of their office space over the next 5 years, leaving a large volume of stranded assets. It will mark a major repurposing of the city from predominately commercial usage to mainly recreational and cultural. The current listed valuations for urban offices are completely and wholly wrong - big impact on REITS, insurance and pension funds and sovereign wealth funds who are the main owners of office space.

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Tim Bond Global Speculations

M&A: Providing investors with the ‘scoop’ on company takeovers...3 in the last 2 weeks!

Last week Betaville broke a story re. **Industria Macchine Automatiche** being acquired - shortly after IMA announced a tender offer from BC Partners (+15%). Betaville had also been publishing articles over the last several weeks re. Global Infrastructure Partners and Blackstone weighing an offer for **Kansas City**

Southern - mainstream media outlets have recently begun writing similar pieces (+30%). Finally, **AA** are now in takeover talks - confirming Betaville's exclusive story from last Friday (+20%). Other recent examples: **Ingencio** (+40%), **RIB Software** (+35%), **Gain Capital** (+70%).

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Betaville

Next (NXT LN)

Consumer Discretionary

Innovation still firing on all cylinders. Analysis includes NXT's recent launch of 'Total Platform' (offering their entire logistics operation to third party retailers) and the company's potential to thrive post-COVID. NXT an acquisition target for **Amazon**? - Why the underlying logic behind Holland's (admittedly speculative!) call has only increased since they first flagged the possibility.

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Holland Advisors

Sika AG (SIKA SW)

Materials

Is consistently outperforming rivals. Innovative products developed in cooperation with clients will help SIKA to gain market share as it capitalises on the trend towards sustainable buildings and lighter vehicles. Compared to rivals, SIKA is more innovative, focused and flexible to respond to changing market circumstances.

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FDA

Eurobio Scientific (ALERS FP)

Healthcare

COVID has acted as a growth accelerator for this small distributor of specialised in vitro diagnostic products. Sales in H1 more than doubled and LPE have significantly raised their earnings estimates for both 2020 and 2021. The acquisition of TECOmédical also offers ALERS a new dimension and enables them to accelerate sales by distributing their products in new areas. TP €18 (65% upside).

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LPE Research

Getlink (GET FP)

Consumer Discretionary

Growing increasingly positive on Shuttle traffic and prices. Also benefits from falling UK and French 10-yr bond yields - reduces WACC 10bps to 4.5%. GET is the 5th most sensitive stock in Insight's global infrastructure universe to changes in long bond yields. Their IRR of 9.2%, is 370bps above their Ke of 5.5%. Raises TP to €25.6 (88% upside).

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Insight Investment Research

— North America

Back-to-School Forecast: Stunning comeback for the US consumer

CGP forecasts 2020 total BTS sales of $647bn, up 3.7% YoY. Buttressed by strong consumer fundamentals, the retail economy is weathering the COVID storm better than many expected and is now poised to regain momentum. This all-encompassing report examines 2020 consumer spending drivers and provides company-specific analysis in their 'leaders & laggers' section as well as BTS turnaround candidates. Companies highlighted include **Five Below**, **Dollar General**, **Costco**, **Lululemon**, **American Eagle**, **Gap**, **Macy's**, **Nordstrom**, **Tapestry**, **Kohl's** and many more.

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Customer Growth Partners

ARC Resources (ARX CN)

Energy

While much of the oil and gas sector is barely holding on, ARX is setting records. Q2-F20 saw record production volumes (166,500 boe/d) as well as record low operating costs ($3.32 per boe), generating $150m in FFO (vs. est. of $90m). For 2021, forecasts FFO of $600m, this funds capex of $425m and dividends of $115m; net debt will be ~$730m (1.2x TTM FFO) among the lowest in the sector.

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Veritas Investment Research

DXC Technology (DXC)

Technology

An end-to-end IT services company with a solid B/S, strong CF generation, good moat and a clear turnaround plan - high pedigree CEO; COVID - exposed weaknesses of cloud solutions; focus on improving relationships with key clients; corporate structure optimisation; divestitures of non-core businesses - that is currently being priced to perpetual decline and eventual obscurity. 40% upside.

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Pinnacle Global Alpha

Howard Hughes (HHC)

Financials

Q2 results ahead of expectations - driven by higher MPC sales and better than anticipated rent collections which facilitated better than expected FFO. HHC is benefiting from the trend to move out of city centres. The ongoing cost savings programme should lead to improved margins. Expects the shares to quickly re-rate towards TP of $80 (43% upside).

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BWS Financial

Intel (INTC)

Technology

Covers short, time to go long? Management has to make deep changes. Having already exited modems, Adnaan believes they will exit NAND memory and the manufacturing process node technology business (by fully outsourcing to **TSMC** and **Samsung**). What would INTC's financial model look like in an outsourced scenario? What does this mean for the stock at the $45-50 level?

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Adnaan Ahmad Research

Nvidia (NVDA)

Technology

Why they should be trying to buy **Xilinx**, not **Arm**. It would enable them to expand their offerings in the data centre and diversifies exposure into areas such as A&D, Communications and Industrial which could benefit from NVDA's AI/CUDA development. Buying XLNX at a 25% premium would be immediately accretive from a valuation standpoint - made even more compelling if they then pursued a 3:1 stock split.

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Cascend Securities

S&P Global (SPGI)

Technology

Following an impressive Q2, Craig Huber believes guidance is too conservative - raises his 2020 adj. EPS estimate (ex-amortisation) to $11.20 and both 2021 and 2022 estimates to $12.18 and $13.70 - the highest on the Street. Low interest rates are not only great for the firm's core debt ratings business, but also provide plenty of cover re. valuation for a stable growth stock such as SPGI.

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Huber Research Partners

Shake Shack (SHAK)

Consumer Discretionary

The market is overpaying for unit growth - each new cohort of Shacks is coming online at lower revenues, margins and ROIC. This will continue to dilute overall company metrics. Meanwhile, even prior to COVID, the existing, high-volume Shacks have been consistently bleeding customers since mid-2016. Many of these locations have now been shattered. Remains a favourite short.

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Quo Vadis Capital

Wayfair (W)

Consumer Discretionary

With the stock up ~500% since GHRA's upgrade in March they examine the bull vs. bear case and whether now is the time to downgrade the stock. Not yet is the answer! GHRA still believes the story has legs as the market starts to understand the margin upside potential. Further profit improvement also comes through the company's Op-Ex line as well as a better attribution model for marketing spend.

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Gordon Haskett Research Advisors

— Emerging Markets

Exchanges: Life beyond trading

EM exchanges are at a different stage of development to their DM counterparts - more potential for new listings and growth in trading fees, but they need to think about life beyond the traditional revenue model. In LatAm, cautious on **B3**, prefers **Bolsa Mexicana**. In Asia, favours **Singapore Exchange** over **HK Exchange** - SGX has a higher share of revenues from data services and is less exposed to prospective EBITDA margin erosion.

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Galliano's Latin Notes

China: Q2 eCommerce consumer survey results

RedTech's survey offers a snapshot of prospects for the economy, salaries, online spending and total spending from a sample of 2,492 respondents. Economic expectations have rebounded strongly; salary expectations less so. Spending expectations for **JD** and **VipShop** have recovered to early-2019 levels, but barely changed for **Tmall** and **Taobao**. **Alibaba** is losing ground. So is **Pinduoduo** - most consumers care far less about lowest price than about product quality and fair prices.

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RedTech Advisors

Havells India (HAVL IN)

Industrials

'House of errors' - Questions the company's strategic business decisions and model. Mistakes have not been learnt, but are now being made on a much bigger scale. Compares HAVL's acquisition of Lloyd to that of Sylvania Lightening International in 2007 (eventually sold in 2015 as they could not turn it around). The report also covers several accounting issues. The contents page of Iii's 30-page report can be found here.

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India Independent Insight

Ping An Insurance (2318 HK)

Financials

Active fund ownership in the company is drifting lower and remains vulnerable to further outflows. After hitting a peak at the end of 2019, average fund weights have fallen to 1.87% and the percentage of funds invested has dropped to 71.4%. A drop in funds invested of 3.1% puts it in the bottom 10 stocks in China, with **Galaxy Entertainment** and **Meituan Dianping** the key beneficiaries of new investment.

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Copley Fund Research

Macro Research

— Developed Markets

Investor Warning: SDGE Models won't reveal an oncoming 10-year depression

Chemicals Capacity Utilisation data makes clear a V-shaped recovery isn't due. The data signals only a short rebound whilst interest rate and gold price trends indicate there will be a 10-year depression. Investors should look at outdated SDGE models (favoured by central banks) with caution: the supply-led models cannot separate recovery from rebound.

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The pH Report

Prepare for a broad-based rotation: Moving out of the US offers substantial returns

A broad-based rotation in relative performance from US equities and currency is underway as the safe-haven appeal of US assets erodes. Appealing alternatives are emerging elsewhere in emerging Asia, Eurozone and Japan. Investors who can remain disillusioned by US leadership and remain confident in global export demand could see substantial returns over a multi-year horizon.

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MRB Partners

Cutting through the COVID noise: Winners & Losers

Variant Perception's in-depth analysis provides a look at COVID economic implications from a purely data-focused perspective. Interesting takeaways include: Canada, Switzerland and Ireland as the most likely to see sustained V-shaped recoveries; the US market appears in line relative to high-frequency economic and virus data; optimism towards the euro will soon wane, with stretched long positioning likely to precipitate a tactical pullback in the currency.

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Variant Perception

Biden hasn't secured his win, yet

Thanos Papasavvas, once touted by the media as the only market commentator calling for Trump's election win very early on, expresses disbelief that COVID and social unrest has secured Biden the presidency. It may all depend on who he chooses as VP; selecting a Hispanic woman could secure him the win.

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ABP Invest

US fiscal policy: Reopen or get out of the way!

Brian McCarthy's strong bullish attitude on the US remains steadfast in the face of unemployment benefits expiring. Fiscal policy needs to focus on reopening or get out of the way completely. Indeed, a large bailout of state and local governments would be worse than no package at all.

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Macrolens

Signs of life in the Eurozone

Harlyn Research's charts for Eurozone equities have suddenly gone vertical. It is now supported by improving lead indicators in cyclical sectors, such as Materials and Industrials, and deep value sectors, most notably, Financials - the key to the rehabilitation theme. Without them, a Eurozone rally will be anaemic; with them it could be surprisingly powerful.

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Harlyn Research

Election 2020: Beware a Democrat sweep could be negative for Healthcare

Capital Alpha Partners disagrees with conventional wisdom that a Democrat sweep this November is not so bad, or even potentially good, for the health sector given Biden's more centrist roots. Biden has been pulled to the left on healthcare with the Biden-Sanders task force recommendations, and the public plan option is likely to be quite negative for managed care and hospitals amid ongoing pressure from the left wing of the Democratic party.

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Capital Alpha Partners

— Emerging Markets

China: No capital fright

Capital flight continues from China. This isn't new and it's really not a problem, despite the perception that this is one of the big "event risks". The intensification of the US-China cold war shouldn't exacerbate this either. The real story is that the broader weakening of the US dollar in international markets makes Beijing's life even simpler when it comes to maintaining the CFETS basket.

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Independent Strategy

Turkey due for slaughter?

Turkey's economy appears to show that an imminent currency, financial and economic crisis is due. Yet we are living in extraordinary times; the >40% nominal rate of broad money growth is only slightly more than that of the US money supply, and the Armageddon-like scenario may be postponed if there is a bid for the Lira from yield-starved investors abroad that allows the country to reset its monetary anchor.

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Andrew Hunt Economics

EM's starting to come around

Lagging EM's are now starting to come around, with Russia strengthening as the RSX ETF just broke out resistance at the 200 DMA. The MSCI Emerging Markets Index is now challenging strong absolute and relative resistance, and with another leg lower in the dollar EM looks poised to finally breakout leading to what may be sustainable rotation.

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RenMac

Chinese property investment humming

Amiable financing conditions, low housing inventory and steady demand will help the property market maintain its momentum, as property investment will grow 5% in the second half of this year. Concerns over government stances can be alleviated as they are likely to remain unchanged.

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Horizon Insights

Asia's positive export outlook

Asian economies will see improving export conditions for manufacturers thanks to reduced EU regulations and stimulus, the US avoidance of a fiscal cliff and measures by China. Nevertheless, current economic conditions remain parlous and further fiscal - rather than monetary - actions are needed.

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Centennial Asia Advisors

ESG

Keeping track of dynamic ESG metrics

In the absence of universally accepted ESG metrics, Curation Corp offer a collection that helps investors track this complex space, offering a dynamic means of keeping track of how stakeholders and regulators are defining ESG compliance. Recent evaluations look at Chinese banks being assessed on green efforts and the resilience of US asset managers against proposals on ESG investments.

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Curation Corp

Commodities

Transporting hydrogen

Thunder Said Energy's extensive report evaluates the complexities of hydrogen transportation. Cryogenic trucks could result in power and trucking costs increasing by 10-25%, despite large energy losses. Hydrogen pipelines will be relatively expensive, and integration into existing natural gas pipelines is unfathomable for a mere 3-6% CO_2 reduction. Ammonia carriers are also examined, leading to interesting conclusions on **Air Products'**s recently sanctioned $7bn hydrogen-ammonia project in Saudi Arabia.

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Thunder Said Energy

Gold hedging holds the Aussies back

Australia's highly hedged gold companies are changing their tune as the precious metal price leaps over $2,000/oz. Only 75% of this group have exposure to spot prices for FY2021, and many are racing to accelerate delivery into stale books. GMR's preferred exposure to the Australian gold stocks remains through **Evolution Mining** and then **Saracen Mineral**. Putting hedging aside, **Dacian Gold** has been downgraded from Buy to Hold on production risks with Westralia.

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Global Mining Research

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