



Independent  
Research  
Forum

## The Cut - Edition 92

Introducing the very best of Independent Research  
from the IRF Providers

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Dear <<First Name>>>,

Please click below for details of all of IRF's conference calls including with **Niall Ferguson** of [Greenmantle](#) on Geopolitics, **Dr. Peter Warburton** of [Economic Perspectives](#) on Inflation Expectations, **Michael Clendenin** of [RedTech Advisors](#) on China Internet, and **Dominique Dwor-Frecaut** of [Dwor-Frecaut Macro](#) on the Forthcoming change in Bond / Stock correlation and many more high quality Research Providers.

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# Company & Sector Research

## — Europe

### HY special opportunities...Atalian

#### Commercial Services

Sarria recently initiated on one of the most controversial names in stressed/distressed HY. Total debt much higher than headline debt. Continued cash burn on working capital and "exceptionals". Track record of aggressive bidding for new deals and new contracts. Multiple M&A clouding underlying financials. A sector with a history of aggressive accounting and vulnerability to recent shocks.

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### ISS (ISS DC)

#### Commercial Services

Revenue falling off a cliff, profitability vaporises, debt (still) saved by indirect government support. H1 results continue to support TT's thesis that the

company is in a very stressful condition with minimal value for its current equity. Since the CEO is on his way out, TT were not expecting any announcements on debt restructuring, but with a banker stepping in as of September, the likelihood of this restructuring increases dramatically.

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## Exel Industries (EXE FP)

### Industrials

A dynamic manufacturer of specialised agricultural equipment. French small-cap experts, LPE Research, expect farmers to spend vast amounts re-equipping themselves after several years of under-investment and order visibility should improve considerably over the coming months. Significantly reduced cost base following a major restructuring in 2019; trades at a discount of over 10% on its BV and invested capital - never happened before. 100% upside!

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## UDG Healthcare (UDG LN)

### Healthcare

A plethora of accounting red flags and earnings quality issues including the early and aggressive revenue recognition in its key Ashfield Communication and Advisory division. UDG's acquisition strategy is also masking mundane organic growth and weak FCF. In addition, there is growing evidence that the company is losing critical talent due to the underpaying of staff. 40% downside.

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## — North America

## Multi-Beverage, Multi-State: The emerging new beer distribution model

### Consumer Staples

2 key developments are occurring - (1) Expanded portfolios are transforming beer distributors into beverage distributors; analysis includes new growth products - RTD cocktails, single-serve wine, cannabinoid beverages and hard seltzers. (2) Consolidation, which is expected to continue, of mega-distributors. Beverage Marketing Corp. is the preeminent strategic consulting and research firm dedicated to the global beverage industry and this was one of the pieces

featured in their industry trends and analyst newsletter, 'The Beverage Strategist'. A (free) copy is available on [request](#).

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## What IT categories are likely to benefit from the rise of big cloud and which are falling behind?

### Technology

If you control the infrastructure, you control the game. Therefore, **Microsoft**, **Amazon** Web Services and **Google** Cloud Platform win, no matter what. This has shifted the battleground among IT vendors to attaching proprietary software - in network transport, data security, storage, active application workloads, and more - to the clouds. Losers will far outstrip the winners. Companies mentioned include **Arista Networks**, **Cisco**, **IBM**, **Okta**, **Palo Alto**, **Qualys** and **Splunk**.

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## Fortress Value (FVAC) / MP Materials merger offers exciting opportunity for investors

### Materials

The Mountain Pass mine has the richest developed rare earth deposit in the US at a time when the geopolitical value of those assets has never been greater. Demand for light rare earth elements will grow significantly as the properties of these elements are essential for several promising markets. Additional bullish factors include a more competent management team, backing from some exceptional investors, favourable geology/permits and a net cash balance.

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## Bloom Energy (BE)

### Industrials

Flagged in Two Rivers' Solvency and Breaking Growth models. Key operating metrics are deteriorating. The company is highly levered and recently refinanced on poor terms. Solid oxide fuel cells are a slow growth technology that has large disadvantages relative to competing technologies. The share price has spiked on JDA news (with a unit of **Samsung** to produce hydrogen generators) providing a great shorting opportunity.

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## Brinker (EAT)

### Consumer Discretionary

*It's Just Wings* is a game changer - newly formed virtual restaurant strategy provides a highly incremental, high margin revenue stream. Creates a long-tailed competitive advantage vs. the casual dining peer group and offers a layer of insulation for group sales against any COVID second wave. Increases 2021 and 2022 EBITDA estimates by 13%.

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## CyberArk Software (CYBR)

### Technology

Included in Summit's best, near-term ideas in the Hardware and Software space. Identity is the new 'firewall'. Revenue growth rates understated, given the increasing mix of subscription/SaaS revenue. The sell-off post earnings provides investors with a great opportunity to own a secular growth story that is tied to digital transformation and WFH. Adaptive to provide another leg of growth this year.

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## Dell Technologies (DELL)

### Technology

Cross Research raises their TP to \$80 - supported by SOTP analysis which assumes a high likelihood of a **VMware** spin off in fall 2021. Investors can expect to receive a \$10bn dividend payment, leaving core leverage well below 3.0x. F2023E: revenue of \$79bn, gross margin 25%, operating margin 7% and generating ~\$4bn FCF. Nearer-term, F2Q21 revenue est. slightly above expectations at \$22.6bn with non-GAAP EPS of \$1.43 (vs. \$1.39 consensus).

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## Interactive Brokers (IBKR)

### Financials

Low cost platform for active traders that is fully scaled and has ~60% operating margins. The international growth opportunity is huge with little competition. Account growth can sustain ~15% plus over the next few years. Minimal downside risk; forecasts EPS 16% and 27% above the Street for 2021 and 2022 respectively. TP \$74 (~50% upside).

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## Plumbing the World's Markets: The story of ICE

### Financials

The parent company of the New York Stock Exchange is **Intercontinental Exchange Inc.** (ICE) and its founder and CEO, Jeff Sprecher, has made a career out of analog-to-digital conversion. He's done it in energy trading, equity trading, fixed income trading and now wants to give it a go in mortgages - can he succeed? Marc Rubinstein, founder of Fordington Advisors, discusses in his latest note (freely) available [here](#).

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## — Emerging Markets

### India: Bespoke research available...recently covered WFH, E-learning & E-sports

Diligent Advisors helps clients understand risks and opportunities of working with the people who lead businesses in India. They also cover industries going through rapid change e.g. education, renewable energy and digital payments. Recent coverage includes WFH implications for outsourcing firms; the rising popularity of E-learning apps, including winners and losers; and the growth of E-sports/gaming, where new firms have emerged to take on the industry's largest player.

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## Ant Group - Ain't no ant, it's a monster!

### Technology

The recent actions and announcements by Ant Financial Services (now Ant Group) and the Chinese government provide clues regarding the digital transformation of Chinese businesses. This report examines Ant's actions, the power of data in enabling **Alibaba's** customer "ecosystems", and how the public listing of Ant on China's market will reinforce the government's aggressive moves to promote their New Financial Architecture / de-emphasise the dollar.

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## Bilibili (BILI US)

### Technology

Initiates coverage with a 'Buy' rating on this Chinese video sharing company, given its highly engaged community, under-monetised assets and strong growth potential. Westlake's report also includes very bullish advertiser and consumer survey results as well as consultations from their network of experts on BILI's strong new game and live streaming performance and traction at large advertisers.

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## MercadoLibre (MELI)

### Consumer Discretionary

Chinks in the digital armour - current valuation looks extremely vulnerable. Q2 results were a mixed bag; growth in Brazil slowed markedly, especially re. FinTech - expects this to continue. Domestic Brazilian e-commerce players, as well as global tech, represent real competitive challenges. Favours **PayPal** and believes Italian payments company, **Nexi**, is one to watch.

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[Galliano's Latin Notes](#)

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# Macro Research

## — Developed Markets

### Ignore the markets, go long USD

After successful calls on bond positions, gold, Bitcoin, short banks and BBB's, Raoul Pal is calling for long USD. Currently, the key driver of the USD is the rate of change of the relative balance sheet by central banks; the Fed went fast and big and the ECB is simply playing catch-up. The BOJ is going to be forced to stimulate aggressively - when that happens, we are going to see the USD rise very quickly.

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### A strengthening USD

Despite the dollar's inevitable depreciation in the longer term, we should expect a stronger dollar in the next 2-4 months. Pervalle's proprietary PVD

model and relation positioning index indicate an upside imminently, boosting real rates higher and compressing equity multiples. Additionally, the largest negative liquidity drag in history will weigh on risk assets through year end.

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## Phillips curve no more, time to turn to Friedman

Chris Watling highlights the monetary inflationary pressures growing akin to that experienced in the 1960's/1970's. Coupled with deglobalisation and supply chain issues brought on by the pandemic, this will bring forth a new type of inflation; one recognised not by the Phillips Curve but by Volcker. With millennials now boosting the population of the working age group, this will also complete the backdrop for Friedman's monetary inflation push.

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## Europe's two-stage recovery

Europe will see a two-stage recovery - a strong initial spurt of growth as easy-to-reopen sectors of the economy bounce back, followed by a second stage of slower growth as the economy heals from the lost output of failed companies. ZEW's index of current conditions in Germany should be disregarded entirely, and investors should look to the IFO index next week to examine Europe's way forward.

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## Euro to over 1.40, maybe higher, by 2022

Manoj Pradhan describes how every time there is an existential crisis in the EU, the policy response not only saves the day, but drives asset prices higher for some time. A fiscal expansion takes them one step closer to a fiscal union. As the EU's Rescue Fund will balloon, we will see the birth of a brand-new safe asset in a world beset by a shortage of safe assets - one that will rival Bunds and drive capital inflows. Play the Euro via USDPLN, capturing the EUR upside and Poland's policy and pandemic response.

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## UK government must step-up

The UK's late and stringent lockdown has hit the economy hard and is now, with its hesitant consumers, rebounding with difficulty. It has also seen a drastic 30% collapse in business investment. With the unique recession rendering parts of

the capital stock prematurely obsolete, and with the consequences of the switch to renewable energy, investment on a huge scale is needed. The UK government should fill the hole with public investment as it eases back on income support; it's not a direct substitute for private sector capital formation, but it will help.

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## — Emerging Markets

### **Globalisation reversal bodes well for EM investors**

Gerard Minack describes how capital flowing to emerging markets actually reduced emerging market's return premium. What was good for economies was not good for investors. But this pressure has moderated over the past few years - coincidentally or not, as globalisation peaked - and looking ahead globalisation reversing should be positive for capital returns in emerging markets.

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### **China's reserve currency system**

Xi's new era socialism will be characterised by a 100% reserve or full reserve banking (FRB) digital currency system, one that could resemble the 1930's US Chicago Plan born from the Great Depression. PRC's view is that China's digital RMB will become the government-issued reserve money necessary to launch a Chicago Plan (with Chinese characteristics). Such an overhaul of monetary and financial systems would give Beijing control over money supply and in turn help solve their debt problems.

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### **China's dual circulation and it's inevitable demise**

China is no longer biding its time and Xi is pointing China inward as the country heads towards "dual circulation", marking its less globally reliant posture. Brian McCarthy expects a significant reduction in long-term economic growth targets. Dual circulation is doomed to fail because of the internal contradiction between central planning and a market-oriented economy: the term is simply propaganda to cover an inevitable period of prolonged economic stagnation.

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## India's pandemic silver lining

India's economy is finally on the mend although the virus will continue to cast a pall over 3Q20 growth. The government's newfound interest in reform reflects a historical pattern of duress bringing forth a willingness to push for structural changes. This may be the pandemic's silver lining, but the autarky campaign will do more harm than good given the economy's reliance on imported goods.

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## Asian export data: Global recovery not intact

Andrew Hunt's data shows that most Asian countries are experiencing poor rates of export growth having lost momentum since the rebound from April's lows. Only Taiwan and Vietnam have seen momentum sustained. Import trends also remain soft, most notably China's imports of finished goods from the West are weak. The global recovery doesn't seem that great, after all.

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# ESG

## ESG in South Africa

Intellidex's extensive survey highlights the impact of sustainable investment in South Africa. The survey, incorporating the views of funds running 65% of the countries AUM, finds that the lack of transparency and measurement is stymieing greater ESG investment. Other findings include investors placing greater importance on the Social element of ESG; BEE being the most common sustainability strategy in investment policy statements; as well as the low use of negative screening relative to international practice.

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# Commodities

## Sweat, tears and gold

What is left of gold is becoming harder to mine. The recent sell-off reminds companies that high prices can't be taken for granted, yet many firms are

reluctant to expand mining operations unless gold is priced high enough. The last bull price run and the subsequent boom in expensive new projects and acquisition sprees turned sour when the price collapsed; the industry needs to show it hasn't lost its discipline this time around.

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## Where's the oil at?

Cornerstone Analytics estimates the volume of "missing oil" in IEA calculations to be 2.1m - the result of demand-underestimation. Until the IEA bite the bullet and upwardly revise their series, the consensus is mistakenly working with an oil balance model with too low a set of demand figures and too low a number for the "call on OPEC crude".

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**For further information please contact us at:**

### Edward Blad

[Edward@independentresearchforum.com](mailto:Edward@independentresearchforum.com)

+44 (0)203 405 7120

Bloomberg IB / [eblad3@bloomberg.net](mailto:eblad3@bloomberg.net)

[LinkedIn](#)

### Alexis Vatistas

[Alexis@independentresearchforum.com](mailto:Alexis@independentresearchforum.com)

+44 (0)203 405 7123

Bloomberg IB / [avatistas6@bloomberg.net](mailto:avatistas6@bloomberg.net)

[LinkedIn](#)

### Jenny Metta

[Jenny@independentresearchforum.com](mailto:Jenny@independentresearchforum.com)

+44 (0)203 405 7126

Bloomberg IB / [jmetta2@bloomberg.net](mailto:jmetta2@bloomberg.net)

[LinkedIn](#)

### Hamish Adam

[Hamish@independentresearchforum.com](mailto:Hamish@independentresearchforum.com)

[LinkedIn](#)

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**Our mailing address is:**

Independent Research Forum

68 Lombard Street

London, EC3V 9LJ

United Kingdom

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