



Independent  
Research  
Forum

## The Cut - Edition 93

Introducing the very best of Independent Research  
from the IRF Providers

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Dear <<First Name>>>,

## IRF Podcast

IRF are pleased to launch their new podcast series. Each podcast will include an overview from the featured Research Provider as well as their latest thought-provoking insights. Please click the icons below to listen to the first two podcasts and please click [here](#) to keep informed of all upcoming podcasts.

### Podcast 1

*"Trump's America &  
Fortress China"*

Andrew Hunt, [Andrew Hunt Economics](#)



### Podcast 2

*"Rising Long-term Bond Yields and  
Their Portfolio Implications"*

Michael Belkin, [The Belkin Report](#)



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## Company & Sector Research

### — Europe

## Aena (AENA SM)

### Industrials

Airports are not airlines, but rare, already built assets with very good, quasi-monopoly economics. For that reason, they have often changed hands in public and private markets for profit multiples (EV/EBITDA and PE) around double today's implied levels. Holland's research includes analysis of regulation, excess capacity and why COVID could not have come at a better time for the company!

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## Games Workshop (GAW LN)

### Consumer Discretionary

Accounting changes and a lack of discretionary bonus boosted FY20 profits. The health of their independent network remains a serious concern. Royalty income is regularly taken at face value and leading to ongoing distortions in market value of the IP opportunity; cash received is significantly below P&L profits. Long-time veteran of the company, Tom Kirby, reduced his holdings even further last month - now below 3%. 45% downside.

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## Suez (SEV FP)

### Utilities

Its share price surged this week as **Veolia** confirmed that they were looking to acquire the company. Once again, the investigative journalists at Betaville were ahead of the markets having issued an 'intelligence alert' to clients 10 days earlier that an offer was imminent. This is the latest in a string of recent successful calls for Betaville re. corporate transactions which include **Industria Macchine Automatiche, Kansas City Southern** and **AA**.

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## Zalando (ZAL GR)

### Consumer Discretionary

2Xideas publishes deep-dive research on compounding stocks that have the potential to double - ZAL is one such stock - Europe's largest online fashion retailer is benefiting from the rapid shift to e-commerce, enabled by its unique network and logistics system. Expansion into the high margin and low capital intensity 'marketplace' business will drive >30% annual EPS growth over the next several years.

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## Banks: Capital & Credit Quality Screens

### Financials

Examines the balance sheets of European banks for solid capital bases and healthy loan loss coverage to determine which are best positioned to return capital to shareholders and which banks, by their modest valuations, have been overly penalised. In Southern Europe favours **Unicredit**, in Northern Europe, **Danske**, and **Barclays** comes out on top in the UK.

## — North America

### Huawei ban: Global 5G rollout in peril

#### Technology

The US Commerce department regulations threatens to put Huawei out of business. Slowing down or eliminating them as a networking company has implications for 5G rollout throughout the world. The Street is currently only anticipating a near-term slowdown in China 5G units, but the reality is that there will be no recovery in the medium term either. Sees considerable downside to 5G unit estimates for 2021/22. Time to book profits on 5G exposed names.

### Alternative Accommodation is big, getting bigger and should provide a catalyst for OTA stocks

#### Communications

Online Travel Agencies are ideally set-up to experience a 2-3 year acceleration in both share gains and value creation. Investors will slowly begin to wake up to the real OTA recovery story - alternative accommodation acceleration, leisure vs. business travel divergences, hotel suppliers leaning into the OTAs, marketing efficiency, and much more. The upcoming **Airbnb** IPO will be a positive catalyst; top pick is **Expedia Group**, but also highlights **Booking Holdings**.

### MDI Prices: Showing signs of life

#### Chemicals

Spot MDI prices have bottomed and recently started inflecting up. Positive view on utilisation rates (short/medium-term) and anticipating a strong recovery in margins. Consensus is still overestimating MDI supply additions and not fully appreciating global demand (believes 6% is sustainable post-2020). Raises target prices on these three 'Buy' rated stocks: **Huntsman**, **Dow** and **Covestro**.

# Custom Panels: Providing invaluable insight for investors

## Technology

Taconic Research assembles Custom Panels of business executives, medical professionals, and other experts, to give investors an accurate, early read on what's happening in a particular supply chain. Three recent examples of Panels built in enterprise tech include: 22 CIOs of large companies spending >\$250k p.a. on **Anaplan**; 24 CIOs spending >\$750k p.a. on **ServiceNow**; 18 CIOs spending >\$250k p.a. on **New Relic**. Please contact us for further information on these Panels, including latest survey results.

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## Autodesk (ADSK)

### Technology

Atlantic Equity believes the company is in the process of ruining relationships with both customers and resellers for short term gains. Analysis (including discussions with ADSK's resellers) indicated sales for May and June were negative YoY, yet the firm reported 14.6% YoY sales gains for the quarter ending July - lowering commissions to resellers had a big impact. Also highlights how several large UK firms recently penned a very public letter to the CEO complaining about over charging and lack of innovation re. the company's products.

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## Cogent Communications (CCOI)

### Communications

Having previously covered why the company should not have been lumped in as a 'COVID beneficiary', Vision's thesis is now playing out. Sales have disappointed for 2 quarters in row and ASPs continue to fall (47% alpha vs. S&P 500); remain sellers. Vision have added 9 new short ideas in the past 3 months including **Slack Technologies**, **WW International**, **J Sainsbury** and **Kingfisher**. Please contact us for further information on these stocks.

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## Exact Sciences (EXAS)

### Healthcare

Management CV flags concerns re. insiders making more money than shareholders. Believes Kevin Conroy's holding of the triple titles of Chairman, President, and CEO has made him too much of a key man re. the company's future and notes his outlier large incentive packages which includes a huge potential pay-out (>\$50m) in the event of a Change-in-Control at EXAS.

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[Management CV](#)

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## Five Below (FIVE)

### Consumer Staples

Stronger post-COVID? Still have a high ROIC-unit growth story, but adding to this is a pricing story (Five Beyond) and a channel story (e-commerce). There is a long-term opportunity to leverage infrastructure and for share repurchase to become a component of EPS growth. Net, this is a very powerful growth engine.

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## Owens Corning (OC)

### Materials

The stock has been on fire since bottoming in March. Very bullish views re. Insulation - will see significant upward revisions to estimates over the coming quarters as we are entering a strong pricing cycle. Roofing to benefit from favourable volumes and margins. There will be a cyclical upswing in Composites after bottoming in Q2. Remains a top pick.

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## The Clorox Company (CLX)

### Consumer Staples

MYST using its unrivalled buy-side network highlights CLX as being 'priced for perfection' trading at ~30x FY21 consensus EPS. The current demand environment is unsustainable. The company has been forced to use 3rd party manufacturers which is a headwind to margins, while its products are now competing for shelf space with many new 'copycat' cleaning products. Growth and margins have both peaked and expects to see sequential Q/Q deterioration for at least the next 18 months. 30% downside.

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## Walmart (WMT)

### Consumer Staples

The company has been extremely busy recently, announcing 5 new partnerships in the last 60 days. WMT is rapidly moving to expand its revenue streams, logistics and product offerings, but it is very unusual to see so much activity in a short period for such a big company. So, what is their motive? How much has to do with **Amazon's** expansion into grocery and discretionary products category?

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### — RoW

## Asia Ex-Japan: Active Fund Managers can't get enough of Entertainment stocks

### Technology

Ownership levels in Entertainment companies are soaring. It has moved to the 3rd largest overweight industry group in the region. Average weights stand at 2.06% with a record 62% of funds exposed to the sector. 4 stocks dominate: **NCSOFT**, **Netease**, **Sea Ltd.** and **Tencent Music**. Although previous investors are buying back in, many still remain on the side-lines, leaving room for allocations to increase even further.

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## Yet another strong month for Excavator / Heavy-duty truck sales in China

### Industrials

Very positive feedback from SRR's channel checks on the Machinery sector - increasing confidence that strength continues through year-end. Excavator checks: August sales above expectations, +45-65% Y/Y range; infrastructure construction the main driver; pricing stable M/M. China H/D truck sales: anticipating a fifth consecutive monthly record when results are released next week; estimates ~128k units, +75% Y/Y; annual sales volume expected to reach 1.4m vehicles this year.

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## Hyundai Motor Co. (005380 KS)

## Consumer Discretionary

Shares are up 75% in the last six weeks after announcing that Ioniq will become its EV brand with a target of capturing 10% of global EV sales within five years. Proves you don't need to pay a ludicrous revenue multiple to get ESG exposure to the electrification and hydrogen themes! The company is part of Sean Maher's 'Alternative Energy' basket theme, along with **LG Chem, Samsung SDI, BYD, Toyota** and **Linde**. Sean's current thematic stock baskets also include 5G infrastructure, e-sports and e-commerce automation.

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## Pakistan Banks: Median PH Score of 9.9!

### Financials

Creative Portfolios' trademarked PH Score\* is a fundamental momentum-quantamental model that scores banks according to changes in value-quality. Paul Hollingworth's report highlights the extremely impressive performance and continuing strength in Pakistan's banks, led by **Allied Bank, Askari Bank** and **Bank Al Habib**. You can contact us for further analysis on these banks or for additional information on Paul's PH Score.

\*Scores lie between 0-10; higher scores represent more positive signs; it has been back tested over several years and conclusively shows progressively higher returns across quintiles ranked by Score.

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## Binh Duong Minerals & Construction (KSB VN)

### Materials

Following impressive Q2 results (sales +36%; operating income +42%) for this Vietnamese quarrying firm, Mike Churchill has added a further tranche of shares for his very successful Classical Insights portfolio. Operating margins and ROE are both >30%, while KSB's main competitive advantages are its mine locations and mine quality, as well as an existing portfolio that still has high reserves and long extraction time. Raises TP to 45,861 VND. 65% upside.

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## Macro Research

## — Developed Markets

### **A model of Exchange Rates & Interest Rates**

Dr Frank Shostak proposes a new economic model focusing on real interest rates (IR) and exchange rates (ER) due to changing circumstances. The current environment of central bank intervention is no longer seeing IR determined by time preferences of economic actors. Meanwhile, movements of ER are also not a function of real IR differentials, but derived from the relative purchasing power of money in countries. The fluctuations are in turn driven by imbalances in the supply of and demand for money - excess money growth - which are a function of expansion and contraction of the money supply.

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### **Fed announcement bodes well for hard assets**

August capped a five-month positive run for commodities. The Fed's announcement last week on its new inflation framework bodes well for hard assets. Inflation expectations are moving higher, and speculative interest into commodities has followed. Numerous markets have already had strong moves higher and have gotten ahead of their supply/demand fundamentals. The potential for a bounce in the dollar off multi-year lows combined with positioning and weak demand will likely result in a pullback in prices, but for the longer term many commodities markets offer significant upside.

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### **Q4 macro outlook and risks**

COVID fears are continuing to stymie growth as real economic weakness will hit us in Q4. This bad news could be good news for markets as it means more central bank policy support, but unfortunately outside MMT the Fed can only pull the levers of stocks and the dollar. The biggest risks to markets now are growth, higher yields and accelerative dollar weakness, as explored by Julian Bridgen.

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### **Japanese Stocks cheapest in 50 years**

Adjusted P/E multiples, taking into account the periods of excess liquidity that have distorted markets, indicate Japanese stocks to be at their cheapest level in 50 years relative to US markets. Whilst US equity allocations have more than doubled in 30 years allocations to Japanese stocks have flat-lined, yet the former

has seen profitability flat-line and the latter has seen it increase ten-fold. Is this the reason Buffet is now eyeing Japanese stocks?

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## **Biden's inevitable win to burst the US equity bubble**

David Murrin explains how the equity market detached from economic reality as a result of the decades-long massive monetary printing programme and recent market manipulation under Trump is doomed to fail. This manipulation will only compound the oncoming depression. Sustained waves of selling are around the corner, exacerbated by the election of a corporate-unfriendly Biden.

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## **Manufacturing Economies: Recoveries and non-recoveries on a country-by-country basis**

Hedgeye's Credit Cycle framework calls for a general trend of improvement in manufacturing beyond phase 2 in the economies of Indonesia, China, India, Russia and Italy. L-shaped recoveries are due in South Korea and the UK. On the other hand, W-shaped non-recoveries post the culmination of phase 2 are likely to occur in Turkey, France and the Eurozone.

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### **— Emerging Markets**

## **China: Rate cuts & difficult choices**

Renewed speculation over a PBOC rate increase, overt or covert, will likely be unfounded. Expects a 10-20bp rate cut instead, in part to enable banks to fill their mandates of returning 1.5trn RMB to the real economy and to protect bank NIM. William Hess also examines the renewed bottom-up risks that may drag on growth and sentiment despite stronger infrastructure activity stemming from top-down policy - policymakers have been successful in managing such tension in previous cycles, but this time keeping the balance will be much trickier.

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## **EM High Yields: The conditions are right**

Whitney Baker examines the markets' second most important debate, value vs. growth, and its current implications for investors. EM high-yielders haven't done well post-GFC in attracting money as investors have stuck to assets where previous returns have done well. However, the key drivers of such flows - growth diffs, real rate diffs, forward inflation, the US rate path, and relative valuations - are all pointing to a big change.

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## China: Are demand and inflation trends turning?

China's Q2 recovery was a supply-side event, although a further easing in credit conditions are currently revitalising the demand-side of their economy. A global inflation surprise will inevitably follow an increasingly inflationary environment in China with Asia's exported inflation coming sooner than expected. Fixed income investors should be aware of the risk to bond prices from a rise in Asian / PRC export prices.

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## A DM equity correction vs. EM outperformance

The time gap between an expected slowdown and fiscal re-engagement creates a period of uncertainty that markets will have to deal with. DM economies will enter that awkward period soon, but EM won't. EM equities to outperform - particularly China, Russia and India. Adds RUB back to long FX basket against the USD. Adds short USDZAR for the period of macro uncertainty and USDINR as India's re-opening broadens out in the data.

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## Select High Yield plays

Local currency-denominated EM debt offers attractive yields in a world where investors are challenged by richly-valued stocks and bonds, and low expected returns in DM. That said, EM policymakers are facing deteriorating fundamentals in their fiscal accounts. With easy global liquidity, global investors are prepared to overlook the differences between well-managed and poorly-managed pandemic responses. This reinforces the attractiveness of High Yield. The need for major central banks to currently maintain a solid reflationary bridge suggest that the risk of a 2013-style "Taper Tantrum" are still remote.

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# ESG

## US leading the way in sustainable energy interest, whilst Eurozone trails behind

The data science team at Arbor show that the US is leading a worldwide surge in renewable & alternative energy interest. The solar industry in the US in particular is gathering sufficient momentum to stand out in an already strong segment of the economy. South Korea and the UK are also seeing booms in renewable energy web searches, and Indonesia joins the party as a late, but enthusiastic arrival. Interestingly, this is the one area where Eurozone economies are not leading the way higher.

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# Commodities

## Hydrogen: The potential impact on PGM demand

The hydrogen industry is experiencing unprecedented support. Share-prices of electrolyser, hydrogen and fuel-cell companies are all climbing substantially; with a number of PGM companies touting investments or JVs with various hydrogen players. The establishment of a hydrogen economy could open a new field of PGM demand. However, given the high costs involved in hydrogen production and transport whether it becomes an economic reality is ultimately a political decision. Given current economic conditions and global debt trajectories Gaius King thinks its very unlikely.

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## Revolutionary batteries to change the world

Mark Latham examines the potentially revolutionary impact of new batteries from the California-based start-up, NDB. The nano-diamond batteries, which could last up to 28,000 years without a single charge, could not only challenge the disposable ethos of many modern technologies, but could solve the major issue of global carbon emissions in one stroke.

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