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Research
Forum

The Cut - Edition 94

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from the IRF Providers

Dear <<First Name>>,

IRF Podcast

IRF are pleased to announce that their podcasts are now available on Apple Podcasts and Google Podcasts by searching for 'The IRF Podcast'. Our most recent podcast with James Lucier of Capital Alpha Partners will be available in the coming days, alternatively to listen now, please click the icon below to download.

Podcast 3

"The Outlook from Washington - Biden or Trump?

The Policy Implications"

James Lucier, [Capital Alpha Partners](#)



Company & Sector Research

— Europe

Ferguson (FERG LN)

Industrials

TRG is the only fundamentals-focused North American firm to cover the company enabling them to provide key insights from their 'boots on the ground' research. Their bull thesis focuses on FERG's dominant US market share and opportunity to consolidate a highly fragmented market; clean B/S with low

leverage and strong FCF; trading at a deep discount relative to US peers. TRG's wider sector analysis also bodes well for FERG - sees continuing improvements in residential and non-res construction as well as strength in repair and remodel trends. One-to-one calls available on request.

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National Express (NEX LN)

Consumer Discretionary

The stock has lost its historic premium and sold off in line with peers creating a fantastic entry point. Operational excellence supports industry-leading margins and will allow NEX to capture high returns on incremental capital in areas like US transit, while creating value through the roll-up of smaller operators in the US. No rail exposure will see a swift recovery vs. competitors. Private Equity target? 100% upside.

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UK Housebuilders: Huge valuation anomaly

Consumer Discretionary

Current valuations would only make sense if we were seeing massive falls in house prices, transactions and profitability. In reality the opposite is occurring. In August, UK house prices had their strongest month since 2004 and there continues to be plenty of positive corporate news flow. Some caution is understandable, but this is well overdone. Willis Welby's report includes expectations analysis for **Persimmon**, **Barratt Development** and **Taylor Wimpey**.

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CaixaBank (CABK SM) & Bankia (BKIA SM)

Financials

Share exchange tug-of-war in a merger of unequals. The quest for greater scale economies and cost efficiencies, in this very low interest rate climate, is driving the merger discussions to create Spain's largest bank (EDIT deal struck this morning!). Victor Galliano provides his expert opinion in this in-depth report - which bank's shareholders does the agreement favour? Do the long run cost savings (estimated at 20%+) sufficiently factor in BKIA's many challenges?

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[Galliano's Latin Notes](#)

Ferrovial (FER SM)

Industrials

Global Infrastructure specialists, Insight Investment Research, provide an update on their favourite stock focusing on the significant potential of its key asset, Highway 407 ETR. Traffic continues to recover and WFH will be offset by less public transport and the continuing strong trends in e-commerce growth. Insight's 'Willingness to Pay' analysis shows why tolls could more than double; pricing will continue as the primary EBITDA driver given attractive time savings. TP €54 (140% upside).

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Hansa Biopharma (HNSA SS)

Healthcare

Lead asset, Idefirix, recently received a positive CHMP opinion for use in highly sensitised kidney transplant patients; its highly elegant and effective profile makes it a pipeline and a platform technology in itself. SOTP valuation implies at least 50% upside with potential for much more. EU and US kidney transplant indication is worth SEK257/share (vs. current share price SEK240) and there is near term upside from gene therapy deals and ROW kidney out-licensing deals.

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— North America

Advertising: Retrench and rethink

Communications

It would be an understatement to say that kids dislike it when their cookies are taken away. However, it appears that advertisers like it even less. Changes in privacy rules that negatively impact the ability to track those using the Internet have already created instability in the advertising industry... and then a global pandemic hit, affecting corporate marketing budgets around the world. This report examines how marketers, advertisers and the ad-tech ecosystem are responding to privacy rules and the pandemic.

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Long Memory: First time since end of 2017!

Technology

The Chinese memory sector will not be spared as the US continues to up the ante on China tech. Adnaan explains why this will be a structural positive for several companies operating in the space. He also discusses how the overhang of rush-orders from **Huawei**/China Inc. are dissipating; how Mr Market is already pricing in price declines for the next few quarters re. DRAM and NAND verticals and how many of these stocks now trade at attractive multiples of book value. Time to build positions in **Micron**, **Western Digital**, **Samsung**, **SK Hynix** and **Nanya**.

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[Adnaan Ahmad Research](#)

Property / Catastrophe Reinsurance: Rates to continue to accelerate

Financials

There are several pro-cyclical factors which argue for pricing power to have swung in favour of reinsurers over their insurance counterparts, but the main need for rate increases comes from the clear evidence that the national catastrophe burden from large losses is on the rise. Highlights how the economic burden from wildfires has accelerated since 2000. Bodes well for companies including **RenaissanceRe**, **Everest Re**, **Axis** as well as multi-line companies like **Berkshire Hathaway**.

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Healthcare Merger (HCCO) & SOC Telemed: A SPAC Winner?

Financials / Healthcare

Despite the fact that the majority of SPACs have turned out to be poor investments, they have enjoyed a resurgence over the last few years, morphing into a frenzy in 2020. Investors have been particularly keen on companies focused on 'emerging' trends such as green mobility or pandemic resistant areas including online gaming and packaged/healthy foods. This report examines HCCO's pending merger with SOC Telemed, a leader in high acute telemedicine - the deal has all the ingredients to join the exclusive SPAC winners club.

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American Financial Group (AFG)

Financials

Smart Insider highlights the interesting and aggressive purchases from long-time directors who have previously had very limited open market activity in this stock. Kenneth Ambrecht: \$200k worth at \$66.38, adding to the \$440k he spent (May-Aug). John Berding: \$950k worth in his 401k since May and Craig Lindner \$760k worth at \$63, which is in addition to the \$3.5m he added to his 401k recently. Stock Rank +1 (highest rating).

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[Smart Insider](#)

First Solar (FSLR)

Energy

Forensic accounting experts, BTN, flag accounting concerns at FSLR. They highlight how the firm continually changes estimates and accruals to drive EPS. EPS of \$1.48 in 2019 was helped by extending depreciation lives to add 11-cents, reversing warranty reserves added 64-cents and lower new accrual percentages added another 8-12-cents. EPS of \$1.36 in 2018 picked up 11-cents from extending depreciation lives, reversing an accrual added 19-cents, and a lower legacy cost expense added 8-cents. These are also keys to higher margins.

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[Behind the Numbers](#)

MicroStrategy (MSTR)

Technology

Are the ongoing improvements in the operating business becoming of secondary interest to investors because of the firm's Bitcoin ownership? Buy-rated MSTR's share price spiked this week on news that they were acquiring additional Bitcoins (their designated reserve currency). The company now holds \$425m worth (=29% of M/cap). Net of Bitcoin and cash, the shares remain very cheap vs. other enterprise software companies.

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Shopify (SHOP)

Technology

FDA initiates coverage with a 'positive' rating. As the pandemic boosts online shopping, small businesses flock to SHOP's software to quickly transform their business into a webshop and benefit from the Canadian firm's fast-expanding offering of merchant services. Its merchant subscriber base has expanded by 70% in the most recent quarter, while merchandise value through SHOP's

platform doubled. Full analysis including FDA's Corporate Sustainability Assessment is available on request.

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Waters Corp. (WAT)

Healthcare

Government restructuring initiatives have created substantial headwinds for the company particularly in China where they have significant exposure. New US executive orders with the aim of materially lowering certain drug prices will create further issues. Gradient's bear thesis also covers elevated AR relative to revenue and worryingly high inventory levels. Share buybacks have been suspended indefinitely (they had been materially contributing to EPS growth).

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[Gradient Analytics](#)

— Japan

CellSource (4880 JP)

Healthcare

The share price shot up after 3Q results confirmed average daily cases of contracted processing for the company's blood and fat cell products were close to record highs. Storm Research, who identify high conviction Japanese equity ideas, explain why they believe the rerating has only just begun. As well as CellSource, Storm have recently provided updates on several of their Buy-rated ideas including **JDMC** (medical data demand), **Lasertec** (continued global investment into EUV; expanding order backlog) and **Midac** (entirely offset COVID-related downturn).

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— Emerging Markets

Braskem (BRKM5 BZ)

Materials

Share price underperformance relative to peers is unwarranted, especially since it is the only company to experience positive EBITDA revisions to date throughout 2020. Geographic and feedstock diversity, along with improving

fundamentals are not being appreciated by investors. Currently trading at 0.43x replacement value - remains an attractive acquisition candidate. 12-month TP is BRL40 (~100% upside).

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Apollo Tyres (APTY IN)

Consumer Discretionary

Management are always very quick to highlight top line growth (which has been heavily assisted by acquisitions), unfortunately they have consistently failed to capture the cash flows associated with it. Highlights several years of poor capital allocation. Believes mismanagement of subsidiaries is a key reason why the return ratios are falling. Questions sustainability of APTY's business model as well as numerous governance issues.

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[India Independent Insight](#)

Pinduoduo (PDD US)

Consumer Discretionary

Marathon, not a sprint - PDD is the Chinese shopper's source for cheap, daily necessities, but its end goal is to take share from **Alibaba** and **JD** in the mid-end market. RedTech's latest survey shows PDD making inroads, but its reputation for low-end goods creates significant resistance and suggests progress will be slow.

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Video Games: 75% of China's 720m gamers live outside the biggest cities

Technology

China game market observers must take note of the vast cultural and behavioural differences between city tiers as gamer behaviour and spending varies significantly. Game companies must acquire users in smaller cities because 70% of game revenue comes from Tier 3-5 cities. Niko Partners' report examines gamers throughout China, not just the major cities, providing detailed analysis of behaviour and spending by geography, gender and platform.

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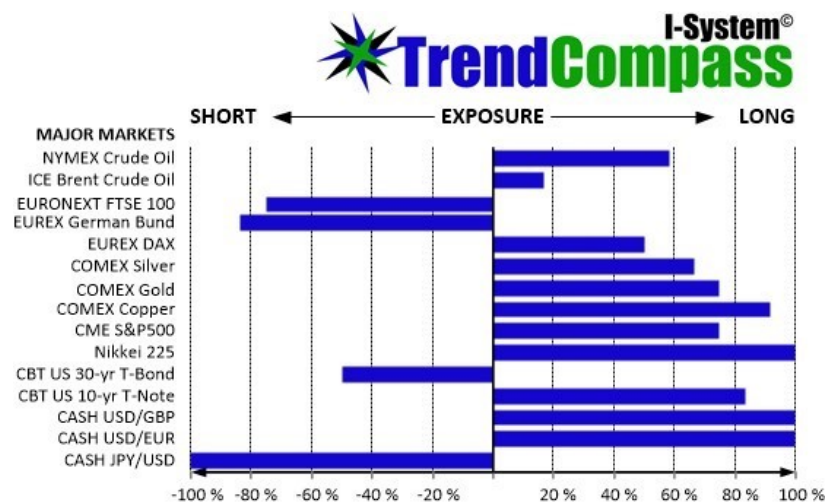
[Niko Partners](#)

Macro Research

— Chart of the fortnight

Navigate markets with confidence and peace of mind!

The gap between markets and data is the widest ever and many investors look at trends for direction. As JPMorgan, Nomura and Rabobank found, CTA (trend followers) market flows “can provide a strong edge in today’s highly systematised markets.” I-System TrendCompass delivers daily CTA intelligence on 200+ markets. An example of their daily market exposure bar chart is featured below.

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— Developed Markets

Dark before dawn

Teddy Vallee believes we are entering the worst period of liquidity in this cycle, meaning that the risk:reward for global equities points decisively to the downside. Given dollar positioning and sentiment, this liquidity backdrop will set off a dollar rally, in turn weighing on breakevens and causing real rates to rise. As real rates rise, tech multiples will come in significantly leading to value outperforming growth. This value/growth trend will continue through 2021, as long leading indicators show growth inflecting and continuing higher after the new year.

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Inflation awakens

Barry Knapp's outlook for higher inflation in the 2020's expansion - in addition to the monetary factors - includes an expectation that three decades of imported deflation is ending due to deglobalisation. In 2021 it will become evident that the Phillips Curve is flat because the primary disinflationary factor is exogenous, in other words the correlation between slack and consumer prices is zero. Ironsides recommends holding inflation related positions and adding on any significant weakness.

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[Ironsides Macroeconomics](#)

Weaker stock markets to collapse in weeks and months ahead

David Murrin explains how the weaker stock markets that have had only shallow Phase 2 corrections into their June highs, and which have already started their declines (e.g. the Dow Jones, FTSE, Eurostoxx, Spain 35 and Hong Kong 50), will soon accelerate precipitously to the downside. Governments and central banks will have little ammo against the decline, which will see prices fall deep below the March lows. Extreme crash-like price actions are due in the weeks and months ahead as we fall into extremely dark economic times.

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High inflation whether Trump or Biden

Both Biden and Trump's macro campaigns are surprisingly similar and support a move to a high inflation regime, with such changes accelerating under a Biden administration. In such a regime the Fed would no longer be able to underwrite the ever widening disconnect between asset valuations and fundamentals. That said, implementation of Biden labour reforms are less likely than a Biden win, requiring control over both houses of Congress.

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[Dwor-Frecaut Macro](#)

Italy's threatened government

The September 2020 constitutional referendum and regional election represent a threat to the survival of the Italian government. There are scenarios in which the government might collapse, and snap elections may be called in early 2021. Risks for European stability and BTPs are skewed to the downside.

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— Emerging Markets

Mexico: Left for dead - get bullish!

As the world rotates out of the last cycle's winners, it may be tempting to buy up cheap European and Japanese stocks. Don't! Whitney Baker explains why Old-economy EM is the way to go, with Mexico at the forefront. The driving forces behind Mexican stocks are inflecting and the index is cheaper than ever relative to other EM's. The country is on the right side of secular and cyclical forces that lift growth, and the banks there are the right play. Go long Mexican stocks.

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China GDP growth headed towards 10%!

The Xi administration and the Communist Party's social compact are under serious stress. The economic stimulus will not stop until employment is restored to somewhere close to its pre-pandemic levels, reducing the political pressure on President Xi. Unfortunately, monetary/credit policy is great at helping SOEs, but not SMEs, and it is SMEs that employ 70% of China's labour force. Thus, fiscal injections and monetary support will continue, pushing GDP growth into the 8-10% range in 1H21.

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[Talking Heads Macro](#)

China: Firing on all cylinders

Longview Economics' leading indicators support the case for an ongoing reacceleration of the economy in the coming quarters. Ultra-loose economic policy is fuelling stronger economic activity and we should see consumption continue to bounce, in addition to a healthy housing upswing. However, structural issues remain, and trend growth will lower in the coming years.

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Indonesia: The stars align for a stronger Rupiah and growth

The Rupiah is likely to remain choppy in coming months as concerns remain over how far Bank Indonesia will be pressed to go in terms of debt monetisation. However, Manu Bhaskaran explains how the economy is poised for a decisive upturn in 2021. Significant labour reforms will be passed, paving

the way for higher growth and stronger economic development, in addition to a more stable and firmer Rupiah.

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Distillate market reveals EM weakness

Distillate demand shows underlying EM and global weakness. The bulk of the weakness is borne in Asia, with YTD demand down 21%. Manufacturing appears to be gaining traction, yet distillate demand is lagging behind - Chinese demand is only a result of inventory stockpiling as the country took advantage of low prices. The global economy isn't clawing back as well as we believed, especially in EM.

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Commodities

Sun's out, guns out

Portugal's recent record low of solar supply at €11.14/MWh is further evidence of the astonishing rise in competitiveness of solar, along with wind and batteries, despite IEA scepticism. We are now enabling scrap and build replacement of fuel-based electricity supplies. The transitions are always S-shaped; once a topping point is reached, as with solar, growth suddenly becomes exponential and surprises cynical incumbents.

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[The pH Report](#)

Zinc on the rise again

Lara Smith explains how Zinc will be supported at \$2,000-\$2,150/tn as the world creeps out of lockdown, and in the following five years we will see prices hover at \$2,400-\$2,600/tn. Stocks mentioned include **Callinex Mines**, **Ivanhoe Mines**, **Lundin Mining**, **Trilogy Metals** and **Orion Minerals**.

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Crude Oil: Price slammed as demand weakens and OPEC overproduces

Prices to continue to decline in the near term as US consumption typically declines by 1.0-1.5Mb/d (summer driving season ends). Further pressure is likely to come from OPEC as they have been increasing production (2.0Mb/d in Aug). Sees significant downside risk for the majority of energy stocks, particularly those with high debt loads, high operating costs, declining production and who produce heavier crude. Hold cash and remain patient for the next low risk Buy window expected during Q4 this year.

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[Pennock Idea Hub](#)

Looking for high accuracy metals forecasts?

Murenbeeld's team of experts have the best 30-year record of 24-month forecasts for gold, silver and other metals. They are currently expecting economic activity to recover far more slowly than equities. Their latest research examines how metals (and equities), today, balance precariously between low industrial demand vs. immense investment demand to own things which central banks cannot print.

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