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Research
Forum

The Cut - Edition 95

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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 clicking on the links or searching for 'The IRF Podcast'. Please tune in to listen to our latest podcast with David Murrin of Global Forecaster.

Podcast 4

"The Five Phases of Empire"

David Murrin, [Global Forecaster](#)



Company & Sector Research

— Europe

Materially different Pharma commercial models going forward, bodes well for margins

Healthcare

Intron Health's research shows how doctors are unlikely to go back to pre-COVID levels of interaction with Big Pharma sales forces and that they are now much more amenable to digital marketing. Lower S&M spend will result in higher margins - consensus forecasts have not accounted for this yet. Considers

this to be a multi-year structural benefit as new technology is adopted by Pharma and its customers. **Novo** would be the largest beneficiary, **Roche** the least.

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[Intron Health](#)

Ryanair Holdings (RYA ID)

Consumer Discretionary

MYST, utilising their unrivalled buy-side network, highlights RYA from their recent Special Sits IDEA Forum - the best airline to own long-term, not just for a quick recovery trade. Explains how the company will use its "fortress balance sheet" to better position itself as the leading low-cost provider globally - gaining market share for years to come and how fixed costs will be locked in at levels the industry has "never seen before". Multibagger opportunity.

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[MYST Advisors](#)

Herige (ALHRG FP)

Industrials

Cost reduction + historical business rebound = record profit. LPE recently upgraded this French building materials distributor to Buy (previously Sell-rated). The company is seeing a spectacular recovery that is sustainable longer term. LPE have sharply revised up their forecasts and now expect profits in 2021 to be higher than before the crisis. TP €50 (100% upside).

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[LPE Research](#)

UK Agriculture: Trade & Tech opportunities post Brexit

Chemicals / Technology

In order to trade and compete as a higher cost producer in global terms, UK farm produce will need to become more specialised and focus on premium markets - building niche export markets; cites whiskey as a great example of what can be achieved. Primary's thought-provoking report also explores the coming digitisation of the sector. Explaining how this can drive down costs, improve ROI and significantly enhance the greening of the sector - while still providing healthier foods to an increasingly more demanding consumer.

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[Primary Access & Research](#)

— North America

The best investment opportunities in Big Data

Technology

Data usage is growing exponentially, expanding the market opportunity for companies that specialise in collecting, aggregating and presenting data. This all-encompassing industry insight by 2Xideas discusses the business dynamics in the data services space, identifying companies that generate compelling organic growth, while featuring superior margins and impressive returns. Includes analysis on **S&P Global, Moody's, Verisk Analytics, FactSet, Intercontinental Exchange, Experian** and many more.

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Airbnb: Deep dive ahead of potential IPO

Communications

GHRA crunches the numbers offering insight into the revenue model and providing a FV of what they think Airbnb is worth (\$23-27bn). Also utilises web data to gauge how well the firm is performing relative to competitors; explores how hotel management teams are attempting to counter Airbnb's share gains and quells any bear debate that increasing local (US) government regulation will restrict the company's growth.

[Request info](#)[Gordon Haskett Research Advisors](#)

American Eagle Outfitters (AEO)

Consumer Discretionary

Real opportunity following a much-needed change in management with Jen Foyle being promoted to the role of Chief Creative Officer. She understands what has gone so wrong at Eagle and will be able to implement the necessary changes and make the girl's business a success once more. Expects to see an improvement in merchandise margins going forward and also highlights a great opportunity for AEO in gifting.

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Bank of America (BAC)

Financials

Forecasting \$40bn of excess capital over the next couple of years, representing ~20% of current M/Cap, which will be returned to shareholders through buybacks beginning in Q1 next year. Consensus has fully discounted the current operating environment of high and uncertain credit costs along with low yields. TP \$37; 1.7x end-2022 TBV of ~\$22/share and expects the bank to exit 2022 with a run-rate ROTCE of 15%.

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Boyd Gaming Corp (BYD)

Consumer Discretionary

Hedgeye's analysis points to monthly regional GGR continuing to come in better than expected; predicts a blowout earnings report for Q3; upward estimate revisions (Street is way too low on margins and EBITDA), and more positive news surrounding sports betting and iGaming. Catalysts are plentiful for this inexpensive stock. Min. 50% upside.

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[Hedgeye](#)

Dropbox (DBX)

Technology

Significant beneficiary of the WFH shift. Large user base gives it staying power against bigger competitors and scale advantages over smaller entrants. Ability to upsell without investing heavily in sales and marketing and will use this reach to form partnerships with smaller SaaS companies in need of distribution. Continued DD revenue growth with improving profitability to drive FCF growth to ~\$500m in 2022 and ~800m in 2024. IV \$32.50 (~70% upside).

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[Boyar Research](#)

Fiverr (FVRR)

Communications

An **Amazon** for services? The company is transforming the traditional freelancer hiring workflow into an e-commerce-like experience. Brings standardisation to a non-standard product set. Brings labour arbitrage to SMB, who have never had access to this before. New avenues for monetisation, such as advertising are just starting up. TAM is huge; potential to grow at 30-40% for several years. TP \$182 (~30% upside).

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[Abacus Research](#)

Harley Davidson (HOG)

Consumer Discretionary

HOG was previously a very successful short (back in 2017 with shares at \$60) for Tom Chanos, founder of short specialists, Badger Consultants. In this report he explains why now is the time to go short once again. Despite having new management, we are still seeing the same flawed strategies. Multi-year secular decline is being exacerbated by COVID. Debt is increasing, bad debt is increasing, sales are declining. Value trap. TP \$15 (40% downside).

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[Badger Consultants](#)

Pacific Ethanol (PEIX)

Energy

Has transformed its business by shutting down unprofitable fuel ethanol facilities and increasing production of high-quality alcohol - capturing market share from an end market that has ballooned because of COVID. Plans to double production capacity by the start of 2021 and will have ~85% of total production in (higher) fixed price contracts. Forecasts significantly higher earnings and FCF; debt free by end of 2021. TP \$20.5 (180% upside).

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[BWS Financial](#)

Snowflake (SNOW)

Technology

Coverage of this recent high profile IPO - Summit Insights considers the stock to be in a bubble all by itself! Massive premium to other high growth names is unwarranted. On top of highlighting both valuation and intense competition concerns (e.g. limited differentiation with respect to Redshift, BigQuery, and Azure SQL Database), SNOW's initial lockup expiration is on Dec 15th, during which 11.3m shares are eligible for sale. With a secondary offering likely, the risks are currently far too high for any would-be investors.

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[Summit Insights Group](#)

Urban Outfitters (URBN)

Consumer Discretionary

Share repurchase programme to restart soon? - Investors should take note of the recent change in language* within URBN's latest 10Q (vs. the prior quarter) as it indicates growing management confidence re. the company's future

prospects. Another company investors should watch closely is **Guidewire Software**; comparing the company's 2019 and 2020 10K's clearly shows that management is growing increasingly concerned re. renewal rates and new competitors.

*The 280first platform detects meaningful language changes in security filings. These changes often reflect undisclosed internal discussions, intentions, concerns, or active projects.

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Walmart (WMT)

Consumer Staples

Shares to underperform - downgrades to Sell (had been Buy-rated since May 2018) - valuation concerns; consensus EPS estimates are too high for both 2H20 and 2021; ROIC trends are weak; unimpressed by what they perceive to be a lack of focus and discipline on capital allocation related to the company's interest in acquiring various tangential technology properties.

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[Quo Vadis Capital](#)

— RoW

China Internet Accounting Report: Comes with an investor warning!

Consumer Discretionary / Communications

Forensic accountant, Stephen Clapham, produces this ground-breaking report providing in-depth analysis of the financial statements of **Alibaba**, **Baidu**, **JD.com**, **Meituan Dianping** and **Tencent**. Analysis includes aggressive accounting, general obfuscation and complexity, use of investment gains to flatter profits, carrying value of unlisted subsidiaries and associates, as well as multiple other issues. The conclusions of this report are likely to be quite shocking to some investors and is a must-read for anyone who owns any of these stocks.

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[Behind the Balance Sheet](#)

Plenty of opportunities in 'forgotten' Japanese small caps

Industrials / Consumer Discretionary

Mike Churchill highlights several stocks that are near multi-year lows (on P/B and/or EV/Sales) that are all good free cash generators and easily cover their dividends. If the Japanese market really catches fire some of these will see their volumes rise 5-10x. Condo builder, **Nisshin Fudosan** - you could liquidate the B/S in a year and double your money. **Oriental Consultants** - benefitting from a boom in government consulting projects. **Akatsuki Eazima** - trades for little more than cash on the B/S despite orders, sales and margins all rising this year.

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[Churchill Research](#)

Asian bank research, without the noise

Financials

Daniel Tabbush, founder of Tabbush Report, has over 25 years' experience analysing Asian-Pacific banks. He is particularly interested in the most critical swing-factors for banks - the NPL and credit cycle and where he believes there is a gap between perception and reality. His recent work looks at the 'limited pain' experienced by China's banks since the pandemic struck which stands in stark contrast to the majority of global banks. In a separate note he highlights the dramatic profit recovery potential for Thailand's **Kasikornbank**.

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[Tabbush Report](#)

Fortescue Metals Group (FMG AU)

Materials

Chairman spends big on shares (again!), bodes well for investors. John Forrest just spent US\$70m on shares at AUD 16.18. This is on top of having already spent US\$183m earlier this year and at much lower prices. Forrest has an excellent track record re. timely share purchases (Smart Insider have trading history from him going back to 2004). It is interesting to see him make another large acquisition especially given it is the highest price he has ever paid for the shares. Stock rank +1 (highest rating).

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[Smart Insider](#)

ESG

Paying the price: Unpicking remuneration policies is more important than ever

"It should be troubling that across Europe over the past 4 years there seems to be little overall correlation between the quantum of pay to management vs. the absolute level of value creation. Much of the focus to date is on absolute levels of pay which, while instructive, can disincentivise genuine value creation and reward - we believe there needs to be much more focus on the details within convoluted 20+ page remuneration reports that tend to obfuscate and allows management game the system..." Jules Hull, StockViews, for the full article click [here](#).

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[StockViews](#)

China's pledge a game-changer

China's surprising 2060 carbon neutrality pledge is hugely significant - a game-changer for the debate on climate action. The pledge could be spurred by China's desire to dominate in low-carbon industries, including the offshore wind sector that they are looking to dominate. The country's upcoming five-year plan should be watched carefully to see if the pledge extends to the Belt and Road initiative, which as it stands will have a large detrimental effect on the globe's temperature (as it has the potential to increase it by 2.7C).

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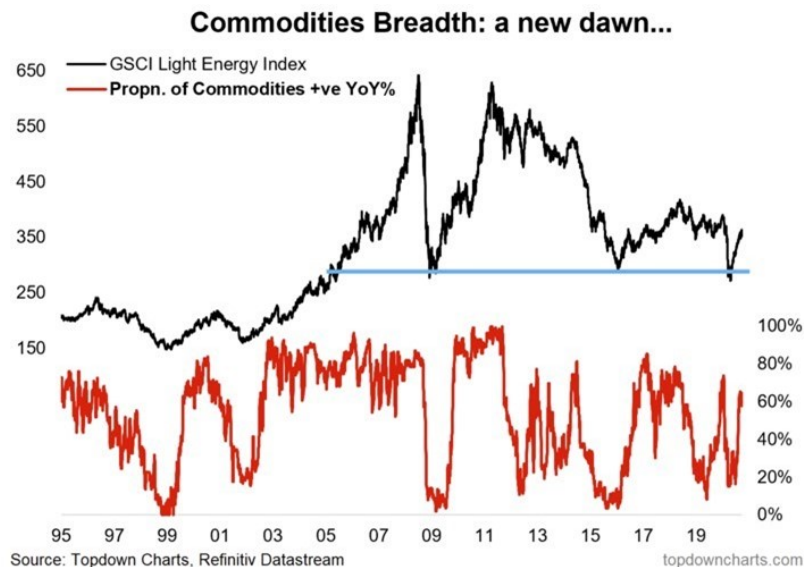
[Curation Corp](#)

Macro Research

— Chart of the fortnight

Bullish Commodities...

Commodity market breadth crashed to washed-out/oversold levels and has since turned up sharply as strength has broadened out across commodities. At the aggregate level, Callum Thomas sees bullish features such as cheap valuations, weak capex, a likely global growth rebound, and a prospective weaker US dollar in the months and years to come - so it is one of the key asset classes that he is watching.



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[Topdown Charts](#)

— Developed Markets

US: How a constitutional crisis could occur

World-renowned historian Niall Ferguson explains how, unlike most contested election scenarios that are overblown by the media, a contingent election could see a real constitutional crisis occur; truly, history has shown contingent elections to be more common. The high-impact scenario is analysed in Greenmantle's latest update, which includes a look into the precedent in various "what if" scenarios, ranging from a Trump/Biden death to electoral college issues.

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Should investors fear helicopter money?

Helimoney, a proposed method to allow for faster implementation of government relief, is likely to make its debut at the next economic shock. The potentially game-changing policy - which will likely debut as a complement alongside QE and TINA - has the potential to bring down markets, but the Fed won't let this happen. It could, however, add to the trend of dollar weakness and further support risk assets.

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[Dwor-Frecaut Macro](#)

Biden economics

Whatever the Republicans might argue the simple facts of the matter are that Biden's proposals amount to a sizeable fiscal ease that will lead to much faster economic growth. Whether such growth is temporary or not is beside the point. Whilst the spending is occurring, growth will be faster. One might imagine that faster than otherwise GDP growth would be positive for equities, via the impact on corporate earnings. Ordinarily, this might be the case, but not when the market's valuation is so heavily reflective of the extremely low level of long term interest rates. A Democratic clean sweep could see a 30% drop in the S&P!

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[Tim Bond Global Speculations](#)

Stagflation the likely outcome due in Germany

Quarterly growth rates for Q3 are going to be incredibly strong; such data will woo equity investors into long positions and bond investors may see yields climb. We will also see estimates of slack in the economy halved compared to Q2. Nevertheless, COVID and its supply shocks will inevitably worsen in the coming months as the weather cools, and consumer-critical goods and services will face shortages. The ultimate end will be a period of stagflation that will confuse market participants and the world views of central bankers.

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[High Frequency Economics](#)

Flexible inflation targeting off to a rocky start

As the Fed tries to avoid a medium-term type of Taylor Rule with its new strategy, it has failed to define the inflation target that it hopes will anchor expectations. Although the Fed chose not to give QE a boost, it will inevitably come. As the US heads into its experiment with de facto MMT, even as signs of economic recovery come about, the Fed will get more inflation than it is hoping for, potentially accompanied by growing leverage and risks to financial stability.

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[RDQ Economics](#)

The Last Minsky

Markets face a potential "Minsky" moment collapse, as part of a late-cycle rare exhaustion pattern on the S&P500. RWA's timing models, which predicted the recent shake-out in late August-early September, signal further asymmetric risks into this negative seasonality period, weighed by the decennial and presidential cycle.

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Investors, look at South Korea

The investment landscape remains favourable. 12-month forward GDP forecasts still imply an ongoing recovery and 12-month forward earnings forecasts are continuously being revised upwards. South Korea stands out macro economically, has non-excessive valuations, and has equity indices with large weights in sectors benefiting from digitalisation.

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New Zealand: Further easing to come?

The RBNZ left its policy stance unchanged, but indicated that preparations are ongoing for further easing to be deployed before year end. This could involve a negative OCR. In which case, this could be a signal that can be read-across the world, with the probability of a rate cut from the Bank of England increasing.

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[Rosa & Roubini Associates](#)

— Emerging Markets

Turkey: Pain after pain - get bullish!

With all of the pain that Turkey has faced over the last few years, surely the worst is over? Whitney Baker explains how, if the external gap is temporary, they have enough ammo to float themselves. The current account is already snapping shut as expected, the currency is no longer being supported, and hikes make it likely that foreign inflows will resume. The whole market is priced for distress and given the negligible size of the sovereign FX position, massive bank capitalisation, and low private debt, Investors should buy here.

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[Totem Macro](#)

TRY to appreciate

Guillaume Coutant, a seasoned market practitioner in EM Macro technical analysis, sees TRY appreciating vs. USD and EUR within a USD intermediate bullish environment. USDTRY & EURTRY are showing strong signs of reversal with USDTRY expected to drop towards 7.20 and EURTRY towards 8.50. TRY is also expected to relatively outperform vs ZAR, RUB and MXN. These trades are set with a time horizon of 3 to 4 months in mind.

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Xi Jinping making final move towards absolute control of Communist Party

At the 19th Central Committee Xi will be seeking an agenda extension along with selected personnel changes of his choosing at the CPC's National Congress in 2022. This is not without risk as powerful people could be made enemies as they are side lined. One significant slip and he could be history. The stage is set for intrigue, and a potential shake-up of the status quo, as Xi attempts to fulfil his dream of achieving new innovations and returning the country to the world-leading power position. Inferential Focus provide detailed analysis of this key October Event.

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Central bank intervention underway across Asia

Manu Bhaskaran's previous work on how a weaker USD (and likely appreciation across Asian currencies) would see central bank intervention (open or stealth) in order to stem the rise is now coming to fruition. The current build-up of foreign exchange reserves shows this is now underway. Taiwan and Vietnam are certainly doing it. Probably other countries including Singapore are doing it as well.

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Sri Lanka: Credit rating downgrade

S&P downgraded Sri Lanka's issuer credit rating (from B to B-); expects a similar downgrade by Moody's this month (from B2 to B3). Despite a rally, Bondcritic believe the SRILAN complex remains attractive vs. peers - favours SRILAN 21s to 24s (Overweight recommendation).

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Commodities

Oil on the path to following Tobacco

Oil is beginning to resemble tobacco 20 years ago as a shunned ex-growth sector where the implied top line/free cash decline over the next decade looks far too bearish. Tobacco stocks soared in the late 1990's. The likely 'long

goodbye' scenario for fossil fuels over the next 20-25 years suggests significant current mispricing of their terminal value risks.

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E-bikes: leading the way

Significant changes in Chinese regulation on e-bikes have resulted in some believing that lead-acid batteries will be eliminated from this sector in 2-3 years, although such fears are likely to be overstated. Nevertheless, new rules should be watched very carefully: a move to li-ion batteries for e-bikes would devastate the global lead market.

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[CHR Metals](#)

Oil: Unfavourable supply/demand clouds outlook

Oil market expert Vandana Hari provides an in-depth outlook for the sector. Currently, oil prices are under pressure, as weak fundamentals outweigh any day-to-day return of risk appetite in the broader financial markets. The outlook on global oil demand recovery has soured, especially with major cities across Europe imposing fresh lockdown restrictions. In the meantime, the OPEC/non-OPEC alliance is pumping more oil and Libya is gradually bringing back nearly 1m b/d.

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