



Independent  
Research  
Forum

## The Cut - Edition 96

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from the IRF Providers

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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'. Our latest podcast with David Ranson of HCWE will be available in the coming days, to listen to this in advance, please download by clicking the image below.

### Podcast 6

*"The US Economy: Advancing without Effective Monetary or Fiscal Policy"*

David Ranson, [HCWE](#)



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## Company & Sector Research

### — Europe

### Office sector in no man's land

#### Real Estate

Amid economic/remote-working uncertainty, the sector is entering unknown territory. Office fundamentals are weakening already, but rental pain still feels 'controllable'. Gateway office market (London/Paris) fundamentals to lag smaller cities. Balance sheets materially weaker in Continental Europe than UK/Nordics. Nordic/Continental European office offer better value than UK/Swiss. Buy-rated

stocks: **Derwent London**, **Gecina**, **Merlin Properties** and **Castellum**. Sell-rated: **Colonial**, **Great Portland** and **Swiss Prime Site**.

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## ISS (ISS DC)

### Industrials

Teun Teeuwisse explains why a recent Dutch court verdict means ISS faces a serious risk of having to make significant adjustments to reported revenues. This latest development adds further conviction to his short thesis. The Street wrongly assumes revenue growth in 2021. The new CEO will have to restructure dramatically to become profitable and debt restructuring is inevitable.

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## LVMH (MC FP)

### Consumer Discretionary

JL Warren's China survey results highlight the blowout luxury retail performance in the country. LV sales grew ~200% YoY in Sept, boosted by a spike in retail traffic and increasing conversion rate. E-commerce sales jumped ~250% driven by customer retention via premium delivery, return services and deepening online penetration. **Dior**, another treasured high fashion brand in the LVMH group also saw equally impressive growth trends. Mainland China is replacing the US as the largest market for LV.

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## Learning Technologies (LTG LN)

### Technology

This detailed note highlights the misperceptions and sleight of hand that are being used by management to conveniently use COVID as an excuse for what is actually a fundamental weakness in PeopleFluent due to a focus on short term profits, which has damaged product quality, alienated existing customers and hamstrung new sales. Since reporting interim results the shares have fallen heavily and the CFO just sold £1.3m of stock - significant downside remains.

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## Sif Holding (SIFG NA)

### Energy

The EU's Green Deal will result in green bucks for investors in this company. Sif operates in the heart of the energy transition by producing monopiles for offshore wind farms. Capacity constraints will result in a more favourable supply:demand ratio and therefore better prices. Forecasts a considerable increase in EBITDA (CAGR of c.37% over the next 3 years). Besides the attractive valuation, also highlights the stock's 'defensive' qualities.

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## — North America

## To rotate or not to rotate - that is the question!

### Technology

Most investors remain focused on 'long-duration' tech stocks (SaaS, payment, big tech...) and do not believe that any potential rotation is sustainable. Adnaan disagrees - arguing that we are now on the cusp of a rotation to a wider group of tech stock participants. He is concentrating on 3 areas: 1) cyclical names e.g. the broad-based analog semiconductor group that focus on the Auto/Industrial space, 2) GARP names, 3) the much maligned 'value' companies e.g. **Samsung** - where he expects the shares to rerate significantly higher over the next year.

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## A deep dive on multi-channel e-commerce: Does not bode well for Shopify (SHOP)

### Communications / Technology

Veritas focus on the exploding e-commerce industry examining the state of multi-channel selling. For simple use cases, **Facebook** and Instagram have supplanted e-commerce platforms as the easiest way to start selling online, potentially eliminating the need for a standalone website. If this trend accelerates, **Shopify** has the highest proportion of transaction-related revenues at risk. Other companies discussed include **Lightspeed**, **BigCommerce**, **ChannelAdvisor**, **Square**, **Wix.com** and **Pinterest**.

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## Albertsons (ACI)

## Consumer Staples

ACI can transform itself from a highly leveraged food chain to an omni-channel food retailer. This is a powerful cash flow story. Northcoast forecast net debt to fall to \$6.7bn this year and to \$6bn in 2021. Over the same time frame they expect EBIT to rise to \$1,574m (COVID-boost), then \$1,131m next year. Lowly valuation (EV/EBITDA of just 3.8) makes it very attractive to potential acquirers.

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## Guardant Health (GH)

### Healthcare

This is another high quality, comprehensive initiation report by Abacus. They consider GH to be a potentially dominant company within diagnostic tests for genotyping cancers. Significant first mover advantage; more volume means more data/intelligence. Recent FDA approval likely to be a major catalyst to Comprehensive Genome Profiling adoption. Growth to rebound swiftly back after the COVID-induced drop (100% upside).

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## Lululemon (LULU)

### Consumer Discretionary

Outsized momentum to continue based on strong new product innovation. JJK Research highlights recently launched categories designed by LULU to capitalise on the WFH trend. An intensified focus on newness, seasonality and customer demographic, provides access to greater wallet share of a larger TAM. JJK raises 3Q revenue forecast to +13% vs. +9% consensus; \$0.92 3Q EPS est. vs. \$0.85 consensus. Their F21 outlook is for +27% revenue gain and \$6.90 EPS.

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## OceanaGold (OGC CN)

### Materials

GMR runs the rule over OGC - one of only a handful of gold stocks that has posted negative returns YTD. Its significant leverage to gold should appeal to investors expecting higher prices. The stock trades at a low 0.9x P/NPV and the recent capital raise reduces near term financing risk. GMR forecasts gold production growth from 315koz in 2020 to ~400koz in 2021E-23E. Possible acquisition target in a sector that has seen plenty of M&A recently. Upgrades to Buy; TP C\$2.70 (~30% upside).

## Proofpoint (PFPT)

### Technology

Positive channel feedback confirms Sales Pulse's bullish outlook for the stock. Their analysis also examines three of the firm's emerging products which they argue are currently being underappreciated by investors - ObserveIT: data loss protection is ripe for a new, integrated approach. Wombat: the security awareness training segment is growing very quickly. Meta Networks: gives PFPT a solution in another large and fast growing segment, Zero Trust.

## XPO Logistics (XPO)

### Industrials

Thought-provoking piece taking a pragmatic look at a business within a sector that remains ripe for disruption and innovation. Acknowledges earnings quality concerns, but Holland's 'clean' numbers used in their valuation analysis highlight significant upside potential especially given the considerable value in XPO's best business (LTL). Investors are less impressed than they once were with 'maverick' Founder & CEO, Bradley Jacobs, but given his impressive track record and the fact that he still holds a substantial stake (17%) this could be a mistake.

## — Japan

## Hikari Tsushin (9435) & Aruhi Corp (7198)

### Business Services / Financials

Two stocks offering significant upside according to Japanese equity specialists, Asymmetric Advisors. Expects Hikari Tsushin, an aggregated service provider for mostly SME's including electricity and internet services, will beat forecasts yet again this year. Also highlights the company's strong FCF (40% upside). Aruhi is one of Japan's top mortgage providers and No.1 in the fixed rate Flat35 government backed mortgages, it has also been growing its own fixed rate product for people with better credit. COVID will have some dampening impact on FY3/21, but back to +15% growth for FY3/22 (50% upside).

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## — Emerging & Frontier Markets

### Beijing Auto Show - Reaffirms bullish sector view

#### Consumer Discretionary

For the first time in three years SRR observed optimism with respect to the automotive peak-selling season and it provides the latest datapoint supporting their view that the auto industry is in the midst of a cyclical recovery. Continues to favour auto suppliers with significant exposure to China e.g. **Adient**, **BorgWarner**, **Valeo** and **Ford** (which they believe is in the early stages of a turnaround in the country). For those interested, analysis also covers NEV's, which made up 40% of new model launches at the show.

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### China Online Advertising Report: Bodes well for Baidu, Tencent & Weibo

#### Communications

According to Westlake's latest primary research report all three Buy-rated stocks are performing better than expectations following digital ad spending recovering meaningfully from 3Q and expects this to continue during 4Q. **ByteDance Douyin** and **Kuaishou** remain very popular among advertisers for both branding and performance ads, while **Bilibili** is gaining strong traction. These companies continue to enjoy favourable pricing trends.

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### Ant Group

#### Technology

RedTech's latest survey focuses on payments and consumer lending. They find that while **Tencent's** WeChat is gaining in payments, Ant Group's Alipay still dominates and its Huabei credit offering is taking consumer lending by storm. Yet while growth is glorious, there are already hints of rising risk...

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### Ashok Leyland (AL IN)

## Industrials

lii highlight serious accounting inconsistencies at AL, one of the marquee commercial vehicle players in India. Includes concerns surrounding the farcical way the company handles some of its foreign subsidiaries; examines the 'absurd and mysterious' Inter-Corporate Deposits and assesses the impact of the change in accounting policy at HLFL (its largest subsidiary). In addition, lii's channel checks confirm a bumpy road ahead amid an expected, prolonged and uncertain demand environment.

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## Meezan Bank (MEBL PK)

### Financials

According to Paul Hollingworth, founder of Creative Portfolios, one cannot but feel giddy when analysing this bank's data! It is currently one of his highest conviction ideas. MEBL dominates the fastest-growth market in Asia - Islamic Banking. In a Rs2.7trn deposit space, it commands a leading 34% market share. In addition, Paul highlights the huge advances the bank is making in digitalisation.

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## ESG

### The decarbonisation commodity play

Despite initial fears, the pandemic is accelerating the transition to a low-carbon economy. A 2°C increase would see staggering increases in copper demand, as well as dramatic growth in niche minerals including cobalt, nickel and other rare earths needed for the electrification of the transport sector. However, ESG-minded investors need to consider the entire lifecycle of these metals and their overall environmental impact: to play the transition enabling commodities with this in mind, buy copper and aluminium and sell/short iron ore.

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### Satellites to monitor supply chain compliance

Over 20 major food firms, including **McDonald's** and **Unilever**, have called on the UK government to strengthen deforestation laws, reflecting growing desires

of corporations to reinforce standards around transparency in supply chains. Firms are adopting technologies to check such initiatives: **Mars** is using satellite mapping to ensure palm oil suppliers are compliant with company protocols. These creative eyes in the sky are set to increase rapidly and countries such as Brazil could suffer due to behaviours around environmentally destructive strategies.

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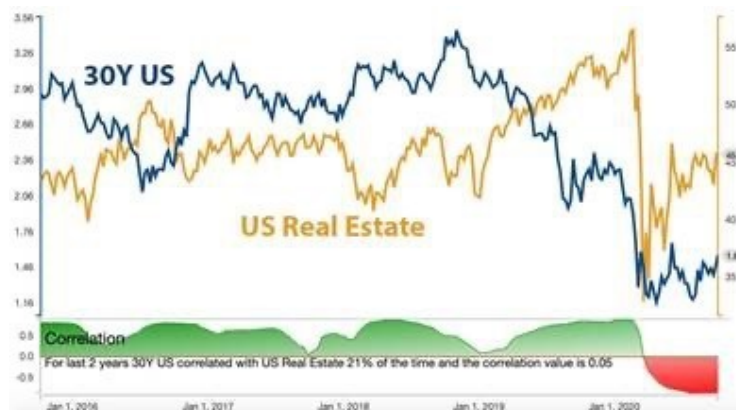
[Curation Corp](#)

## Macro Research

### — Chart of the fortnight

#### US Rates & Real Estate

Despite common misperceptions, and convincingly deviating from its decades-long historical relationship, US Real Estate trades in a negative correlation to longer-term rates. The current COVID-spillover effect has devastated most real-estate intensive businesses vacating billions of square feet across the Commercial Real Estate (CRE) space. Therefore, the cost of CRE loans (interest rates) takes a back seat and vacates the front row to any promise of recovery in demand, which again, typically resonates with higher rates.



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### — Developed Markets

#### Climate change: Adapting to the future



In the first part of a series on climate change, Niall Ferguson reviews the scientific evidence from around the world. Whilst the overwhelming consensus is that humans are the dominant cause of the recent rise in global temperatures, uncertainty remains about the short- and long-term effects. Stringent mitigation would not lower global temps, but merely stop them from rising. The unprecedented fall in pollution during the pandemic will be a drop in the bucket. The challenge we face is not to prevent climate change, but to adapt to it.

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## Liquidity distorting markets

The unprecedented - and ridiculous - rise in US liquidity continues. Authorities have added significant quantities of base money to the system, to the benefit of asset prices but detriment of the USD. Markets are trading off daily USD liquidity fluctuations; this situation is not good for the economy and acclaimed economist Andrew Hunt questions whether financial markets themselves can be fit for purpose. Liquidity data will strengthen as the election arrives.

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## ECB can't stop the euro from strengthening

The ECB's objective is price stability; not setting the exchange rate. Yet, recent comments 'in passing' from the ECB suggest the central bank is not happy with the currency's appreciation as it puts in jeopardy their inflation target and adversely impacts the recovery also reliant on its exports engine. But can they do anything about it? Thanos Papasavvas investigates.

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## Dodging Icebergs: Examining the implications of a Biden presidency

While Biden's election would have some significant implications, a market collapse would not be one of them. He would spend money on things that need money spent on them: US infrastructure, the green economy and education. All could be long-term contributors to (woeful) US productivity. Investors should expect upward pressure on longer-term Treasury yields and a weaker USD. Biden would also lead to some temporary abatement in US/China tensions. The cold war is here to stay but its tempo, predictability and language will change.

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## **Euroland Industrial Production: Not as good as some believe**

European industrial production increased in line with expectations, but this expansion will soon stall. Even if production grows at an unprecedented 1%-per-month rate, the annualised Q4 growth rate will be less than 10%, and the December production level will be less than February's. Since yearly GDP growth correlates with yearly industrial production, expect to see a similar pattern in GDP data: explosive growth in Q3 followed by a flat Q4.

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## **US Labour Market: Normalcy or bust**

Although unemployment declined in September, the labour market overall did not tighten, a disturbing outlier among many signs of robust recovery in the US economy. Brian Pellegrini explains how this elevated level of unemployment is a sign of inelastic supply rather than weak demand. Because of this, the labour market's next move will be dependent on Q3 policy actions; if lockdowns continue, the risk of capital liquidation will rise significantly.

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## **Italy: Rumours of populism's death are greatly exaggerated**

Episodes of the latest defeats of Salvini's League in iconic bastions such as Legnano are being wrongly interpreted as the end for sovereigntists and the populism cycle. Attempts to portray the anti-establishment populist forces as being sparked by Trump are misleading, and push forces in Italy were visible long before 2016. Surely, populism is in an awkward position compared to 2018, but the League continues to poll well and the actions of President Mattarella to secure a re-election could bolster the League's reputation.

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## **Japan: Increased marriage bonus will not be enough to reverse low fertility rate**

Hedgeye has written extensively about Japan's ongoing efforts to raise the fertility rate. Many of these efforts were the brainchild of former PM Shinzo Abe. Under his leadership, the TFR did rise to 1.45 in 2015, yet has been sinking ever since. Nevertheless, the government is not abandoning its pronatal crusade, but despite the government's latest efforts, they are unlikely to be reversed unless

there is a dramatic cultural and political change. And the technocratic leadership of PM Suga doesn't seem like it will be the catalyst to such a revolution.

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## — Emerging Markets

### The EM COVID non-crisis

COVID has caused plenty of economic pain across the world, but there is little sign of specific EM stress yet. That's because EM central banks have benefited both from the overspill of liquidity provided by the G4 central banks and have been temporarily indulged with similar privileges. Lockdowns have crushed domestic demand, narrowing vulnerable external imbalances. This is a story of obscured rather than resolved fundamental imbalances, and it is likely to reinforce bad policy choices in EMs rather than encouraging reform.

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### As China's economy outperforms, CNY is under upward pressure

The recent appreciation in Yuan has gone too far for the policymakers' liking; while a strong CNY meets long-term goals of boosting domestic demand, too rapid a rise could weigh on export growth in the near term. Policymakers have likely been engaging in stealth intervention, leaning on banks to accumulate USD on the sly, capping further upside CNY strength whilst avoiding an expansion in the PBOC's FX reserves. Forecasts USD/CNY at 6.70 at year end.

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### India's temporary ailment

India will soon report the most COVID cases globally. The manufacturing PMI may be back to expansion levels, but the country will lose competitiveness as industrial production is taking time to bounce. FDI inflows have slowed and leading indicators are far from their historical range. However, once the COVID hurdle is jumped, we will see India outperform many other countries in a post-COVID world.

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## Buoyant outlook for Emerging Markets

Guillaume Coutant recently published his Q4 Global Macro Outlook report. Topics include the confirmed recovery in EM local currency bonds; EM relative outperformance has started and global preference for EM swaps to be paid. His report also provides an in-depth outlook on commodities and DM economies.

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## China: The Art of War

China is winning the trade war by MASSIVELY out-investing the rest of the world in advanced factory equipment, and is the only major economy that has expanded factory equipment in recent months. The country is taking lessons from it's post-GFC recovery. Take advantage by playing the China Industrial ETF (CHII).

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## Commodities

### Roaring Rhodium: Soon to lose its voice

Rhodium is on a rampage, no doubt thanks to its use in catalysts and lack of abundance especially with African production being hit by the pandemic. Despite what many market commentators say, this price is not sustainable. Commodity experts Core Consultants forecast the metals fair price of ~\$10,500/oz to be reached in Q1/2021, a far cry from current levels of over \$14,500. In a separate report Core Consultants examine the importance of Africa's cobalt mines for an electric economy - further information is available on request.

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### Assessing China's lead production

CHR Metals have long provided in-depth estimates on Chinese mine production - including detailed province-by-province analysis. Their research examines how secondary lead production is much higher than stated by official data. The future of the lead industry remains uncertain and it is important to recognise its true scale; possible upcoming changes in China could decimate the lead industry, and the scale of production will determine this impact massively.

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