



Independent  
Research  
Forum

## The Cut - Edition 97

Introducing the very best of Independent Research  
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 podcasts with Peter Warburton of Economic Perspectives, and Brunello Rosa of Rosa & Roubini Associates are now available, please click below to listen.

### Podcast 7

*"The Outlook for Inflation: The Impact of  
Regime Change"*

Peter Warburton, [Economic  
Perspectives](#)



### Podcast 8

*"The Existential Threat Facing the  
European Union in 2020 and 2021"*

Brunello Rosa, [Rosa & Roubini  
Associates](#)



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## Company & Sector Research

— Europe

**Allegro (ALE PW)**

## Consumer Discretionary / Communications

"The **Amazon/Alibaba** of Poland" - MYST using its unrivalled buy-side network highlights the huge potential for this recent IPO. It is one of the largest European e-commerce sites and is a key play in the digitalisation of Poland's economy which is quickly becoming "the South Korea of Europe". It has a highly experienced and well respected management team; under monetising Ad platform; rapidly accelerating net revenue growth and FCF positive. Amazon acquisition target?

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## Basic-Fit (BFIT NA)

### Consumer Discretionary

Core economics are completely misrepresented. Egregious accounting and management presentation of a "ROIC >30%" belies a true return of just 6.5%. Furthermore, rising competition in key growth market France is leading to deteriorating margins. COVID resilience has been misunderstood by the market, which recently became apparent at the pre-released Q3s, while the CEO's ownership of gyms also raises governance questions. 50% downside.

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## Boohoo Group (BOO LN)

### Consumer Discretionary

PWC induced sell-off provides a fantastic entry point. BOO has that unusual combination of owner-manager, high organic growth, extremely high ROC and best of all, its model is very scalable. Having been close observers of companies such as **Sports Direct** and **Next**, Holland Advisors see BOO as having cherry picked all the best bits from the established player models. The company has many advantages over peers and it is aware of these and using them powerfully. Holland's report concludes - "Buy Boohoo and sell the credibility of auditors".

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## RELX Group (REL LN / REN NA)

## Communications

In-depth report examining the structural change occurring that will have a fundamental impact on the way investors look at this stock, triggering a de-rating of the shares. Questions the firm's resilience/defensive qualities; believes large buyback programmes are no longer feasible. Re. Exhibitions - live events may never reach 2019 levels again and monetisation of virtual events remains a major challenge. Re. STM unit - discusses the weak financial position of universities/colleges caused by COVID, as well as its unsustainably high margins, especially in an environment moving to Open Access.

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## UK Mid Cap Technical Review: ConvaTec (CTEC) & Blue Prism (PRSM) added to momentum portfolio

### Healthcare / Technology

The FTSE 250 index continues to outperform the FTSE 100, managing to hold within the sideways range in spite of market weakness. This resilience is due to limited profit-taking in momentum names which still hold their uptrends (**Avon Rubber, Oxford Instruments, Diploma, Dechra Pharma, AO World, Spirent**) and stocks finding medium term support levels (**Morgan Advanced Materials, Savills, Greggs, Hiscox**). New buys in ConvaTec (rallies from the bottom of the range, finds relative support) and Blue Prism (renews price and relative bases).

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## — North America

### Academy Sports & Outdoors (ASO)

#### Consumer Discretionary

This exciting IPO has gone under the radar. ASO is a \$5bn revenue sporting goods retailer with 260 locations mostly in the southwest. The shares are extremely cheap (single digit multiples) relative to Quo Vadis' EBITDA, EPS and FCF forecasts. ASO also generates superior ROIC metrics when compared to high quality, sector peer, **Dick's Sporting Goods**. The company is run by Ken Hicks (CEO), who presided over five years of exceptional gains at **Foot Locker**. TP \$28 (93% upside).

## Advanced Micro Devices (AMD) & Xilinx (XLNX)

### Technology

Tech experts, Lynx Equity Strategies, provide full analysis of this mega-deal as AMD agrees to buy XLNX for \$35bn. This is a bold move by AMD, but the right one - the combination of these two technology heavyweights will help AMD break out of the confines of the compute world and launch itself into a new SAM - communications. Other companies impacted/discussed include **Intel**, **Nvidia**, **Cisco** and **Arista Networks**.

## Generac (GNRC)

### Industrials

Impressive Q3 performance reflects both the operational strength of the firm as well as the results from significant changes underway in how people think about electrical security. Has seen unprecedented levels of demand for home standby generators. Highlights the company's growing suite of solutions in the Clean Energy space as well as the opportunity in the nascent Energy as a Service component which is the Enbala business. Northcoast substantially increase their earnings estimates for FY20-FY22.

## Harley-Davidson (HOG)

### Consumer Discretionary

Earlier this month, The Edge's Annual Fundraiser Conference presented HOG as one of the high conviction ideas. Attendees made a +32% gain vs. S&P MidCap 400 Index of +1%. With a "game changing" CEO on board and under the watchful eye of an activist, HOG's story is just beginning. To discuss this, and other high conviction ideas including **Pfizer** and **Verint Systems**, click on the button below.

# Sinclair Broadcast Group (SBGI)

## Communications

Huber Research have long been very sceptical of SBGI's RSN acquisition and believe the sports network entity will need to declare bankruptcy within the next couple years. YouTube TV and Hulu have just dropped its RSNs off their respective OTT platforms. The stock is trading at 10.3x 2021/22E average EBITDA and 15.3x unlevered FCF (6.6% yield) which is way too expensive given the trends and risk. Staying short. They much prefer **Nexstar** in the broadcasting segment.

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# Splunk (SPLK)

## Technology

Top line growth and cash flow pressures go far beyond a change in billing terms. Sales will continue to deteriorate. The rise of cloud-native competitors is affecting SPLK's ability to compete in the cloud. Gradient also highlight several accounting concerns including the dramatic rise in AR (which is not fully explained by a shift in invoice yields) and how the rise in capitalised-expense accounts has artificially boosted earnings. Premium valuation is unwarranted.

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# USANA Health Sciences (USNA)

## Consumer Staples

Yet another earnings beat, while management's outlook remains far too conservative. USNA is ideally positioned in the current global consumer environment, boasting an impressive portfolio of wellness and nutrition products; D2C business model; strong financials, generating large FCFs. Underlying momentum is accelerating sharply; increases 2020E EPS +24.7% to \$5.50 and 2021E +12.7% to \$6.20. TP \$115 (37% upside).

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## Handset Semi Report: Strong demand, component shortages and Huawei ban bode well for earnings

## Technology

Westlake's primary research shows global handset demand is recovering, leading to various component shortages. **Qualcomm**, **MediaTek**, **Skyworks** and **Qorvo** are experiencing strong demand from large Android OEMs and **Apple** for iPhone 12 series (excl. MediaTek) and will gain from US government's export restrictions impacting **Huawei**. Expects these companies to beat earnings estimates for Q3 and see consensus forecasts revised upwards for the coming quarters.

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## Home Builders: Price vs. Pace - What is best to optimise returns?

### Consumer Discretionary

Alex Barron, founder of Housing Research Center, examines why builders' new focus on affordability is structural in nature and will continue to evolve in the direction of lower home prices. He believes sector fundamentals have not looked this good in a long time and stocks continue to offer significant upside. Alex recently raised price targets on two of his favourite stocks, **Meritage Homes** and **TRI Pointe**, having correctly predicted that both companies would beat Q3 consensus forecasts.

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## Securities Filing Analysis: Key alerts at Chipotle (CMG), MSC (MSM), SEI (SEIC) and Tesla (TSLA)

### Consumer Discretionary / Industrials / Financials

280first is a technology empowered service that rapidly extracts actionable insights from 10-Q/10-K text discussions through quantitative and qualitative inputs. Significant alerts from Q3 earnings include CMG - change in language suggests growing confidence in business outlook with share repurchases to resume. MSM - dividend cuts on the way? SEIC - performance target timeline stretched, improvements taking longer than previously forecast. TSLA - now believes its next performance goal of \$6bn EBITDA milestone is probable.

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# Why today's Large Cap Growth is more precarious than the Nifty Fifty

The Collision of Arithmetic & Over-Optimism - Kailash's paper seeks to discredit the "quality & growth at any price" thesis underpinning many of the market's leading growth firms. Buying the 25 most expensive firms within the 50 largest market cap firms today is an arithmetically reckless bet. Already more expensive relative to US GDP than any time in history, if these firms generate 10% annual returns while the US grows well above any forecasted rate, they will be larger than the US economy by 2028!

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## — Emerging Markets

### Ant Group

#### Technology

The biggest IPO in history is just around the corner and IRF have several Research Provider's providing in-depth analysis, exploring Ant's enormous scale and complexity of its different business lines; highlighting key growth drivers and competitive threats; Alipay vs. WeChat Pay; the big data opportunity; AntChain; digital RMB - friend or foe? Consumer finance survey results (Ant vs. The Banks); earnings estimates and SOTP valuation analyses are all covered. Please contact us for further information.

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## Confidence returning to Indian stocks

Copley's EM active fund positioning analysis shows managers have been increasing their exposure to Indian equities after a heavy drop in the immediate aftermath of the pandemic. The increase of 0.92% in average fund weights since the March lows was bettered only by Taiwan (+1.33%). Ownership levels have risen in Energy (led by **Reliance Industries**; yet still remains a key underweight), Healthcare (**Cipla** and **Divi's Labs**), Consumer Discretionary and Technology.



Ownership levels have decreased in Utilities (**Power Grid**) and Financials (**Axis Bank/ICICI Bank**).

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## India Autos: The turning tide?

### Consumer Discretionary

lii's latest product, 'Bharat Connect\*', provides on-the-ground insights across key channels located in tier 2 and tier 3 locations. This report focuses on the Autos industry and includes volume trend forecasts, inventory/supply issues, availability of finance and changes in consumer sentiment. lii interact with dealers of **Maruti Suzuki** and **Eicher Motors**, with the main focus on **Royal Enfield**. Future coverage will also include **TVS Motors** and **Hero MotoCorp**.

\*lii consider Bharat to be India's next growth engine and hence, the focus of their checks.

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## Fresh Buy on China Financials (CHIX)

CHIX is expected to outperform for the next 38 weeks - this is based on money flows from longer dated bonds, including 10Y China and 30Y Government Bonds. Confirming this, TenViz\* also has a Sell Short on longer dated China Government Bonds.



\*TenViz utilise Machine Learning-based models to predict Cross-Asset Flows and to generate Buy and Sell signals on a universe of over 15,000 securities in 30 countries.

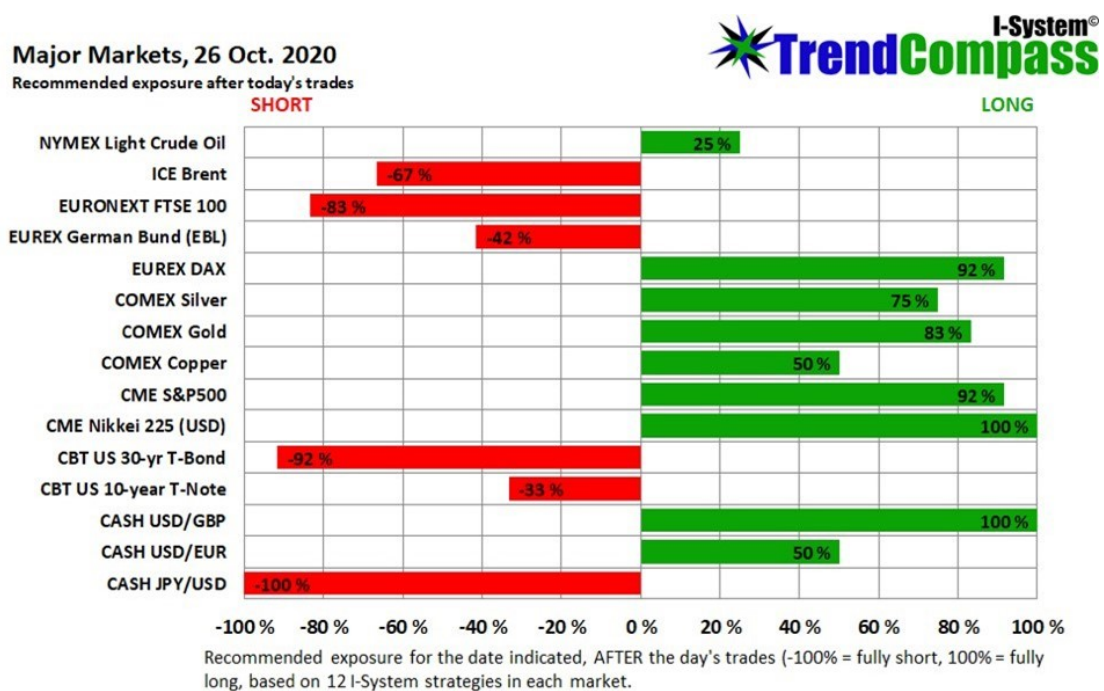


# Macro Research

## — Chart of the fortnight

### US Treasuries head short

TrendCompass gradually reversed from Long to Short on US Treasuries on Oct. 1 (30-yr) and Oct. 21 (10-yr) reconfirming Nomura's contention that CTAs strategies "can provide a strong edge in today's highly systematised markets." TrendCompass delivers daily real-time CTA signals on 200+ markets.



## — Developed Markets

### Democratic sweep to cause a severe market correction

Renowned foreign policy expert John Hulsman explains how we will see a Democratic sweep in November with Biden as President, who's fiscal expansion and infrastructure investment will boost economic activity. The Democrats will take over both the House and the Senate, the latter being split 50-50 and thus decided by Vice President Harris. When the result is disputed by Trump, expect a severe -10% stock market correction.

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## **GBP set to win the race to the bottom**

When Johnson signs the inevitable capitulation Brexit trade deal, this will set in stone GBP's demise. The UK's comparative advantage, especially in the service industry, will wither away and set the nation on an extreme path of inflationary monetary policy. The northern powerhouse will do nothing, and sound money doctrine is truly dead. Expect extreme turbulence of global credit in the coming months with the UK at the epicentre, which will see the pound fall far below its already-low medium-term course.

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## **Is the Phillips Curve really dead?**

Evidence for the existence of a national level Phillips Curve remains weak, though there is evidence that it does exist at an individual state level. This implies that, when the US economy experiences a geographically broad expansion or contraction, Phillips Curve-like dynamics will tend to re-assert themselves. As a result, if the Fed succeeds in producing broader growth, then there is significant risk of higher rates of wage inflation at a national level.

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## **The Fed and asset bubbles**

Senior Federal Reserve officials are calling for tougher regulations to prevent low interest-rate policies giving rise to excessive risk-taking and asset bubbles in the markets. Any attempts to suppress such side effects through regulation will generate more painful outcomes. AASE hold that to stop the emergence of bubbles, the Fed should stop the monetary pumping by means of easy monetary policy.

## The Great Demographic Reversal

Manoj Pradhan, former head of Global Economics at Morgan Stanley, writes in his new book, *The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival*, co-authored with Charles Goodhart, how the structural trends that have kept the world in a deflationary drive for the past three decades are reversing. Catalysed by the pandemic, we will be seeing >5% inflation rates in 2021 with the possibility of double-digit rates akin to the 1970s.

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## US: No silver tsunami in sight

Concerns over rapidly increasing healthcare costs contradict actual trends - US healthcare expenditure growth (% GDP) has come to a grinding halt. The rapid decline in medical care prices played its part in ensuring this, as has the improvement in medical care services. Medicare isn't the runaway train it was once believed to be.

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## Climbing dollar to bring attractive entries for investors

Over the next 2-4 months, the dollar will move higher due to liquidity, positioning, and a host of technical indicators, creating an attractive entry for EM equities/LC bonds, commodities, and cryptocurrencies in Q12021. Investors should also look optimistically on the cyclical areas of the market, particularly energy relative to tech.

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## UK: Not-so-Braveheart

In the midst of the pandemic, many are failing to see the prospect of Scottish independence rear its head once again. Economic consequences are moot - we are, however, failing to recognise that the rest of the UK will lose access to key

nuclear submarine bases in Scottish waters, threatening the nation's position on the UN Security Council and thus rejigging the diplomatic map.

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## — Emerging Markets

### Turkey: Heading to the slaughter

The CBRT kept its official funding rate unchanged at 10.25%, causing a big dent in the central bank's credibility and eliminating all expectations of a short-term Lira appreciation. The MPC's meeting confirms Zekeriya Ozturk's view that the fundamental policy trend is to focus on short-term growth as a primary objective, placing other concerns such as inflation, currency and reserves as lower down the list. Unfortunately, failing to fix these other objectives will render even short-term growth impossible very soon.

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### Asia's rise and Europe's fall

Asia has finally emerged from the pandemic with a major risk upgrade across the region. Australia, Taiwan and India have now joined China and South Korea with all five major equity markets offering a favourable risk profile for institutional investors. In Europe, by contrast, the risks of capital loss going forward remain high, with the UK, Germany, France, Switzerland and Spain all flashing red. Crystal Shore offer a highly detailed GTE Dashboard\* to all subscribers - a free copy is available on request.

\*Crystal Shore Dashboards seek to help money managers avoid capital loss by systematically evaluating the risk of 44 global markets on a weekly basis. See overview for further details.

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### China's war on the West

Cold War II will emerge in the form of fintech. Chinese ambitions to expand fintech influence through corporations and the digital RMB will see the West respond with a wave of digital protectionism. G10 central banks will develop

digital currencies in response - whilst China will be boxed out, it will retain advantages in global cross-border transactions as US innovation lags. Most notably, a severe long-term Chinese threat is a parallel SWIFT-like structure, that will see the US's dominance in cross-border transactions fade away.

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## China: Echoes of 2016 in Property & Credit

Three related sources of the post-COVID recovery should start to sputter in Q4: the credit impulse, the augmented fiscal impulse and property sector investment. Two immediate observations are that the secular slowdown in China remains entrenched, and despite all the talk about high-quality growth, the macro response to COVID looks very similar to that of 2016 where we saw a credit-driven property sector rally. This piece updates PRC's impulse estimates for monetary and augmented fiscal policy in the context of their view that the economy has entered a late stage expansion.

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## China's plans for the future

China's five-year plan is to be confirmed soon. Liberalisation of rural land ownership and labour market rigidities will be among the key focus points, along with an overhaul of the fiscal system. However, worrying signs indicate the state will take a much stronger role in strategic sectors, weakening productivity and potential GDP growth.

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# Commodities

## Central banks drive the Bitcoin boom

The rapid embrace of Central Bank Digital Currency (CBDC) by policymakers heralds the likely wider use of e-monies within five years. CBDC is developing alongside its nemesis MMT, resulting in an explosion in both the size and growth

of Central Bank balance sheets. The risk of QE-borne monetary inflation will fuel the rise of Bitcoin, and we will see the cryptocurrency double in value to \$25,000.

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## EV demand expectations to lead investors astray

Investors wanting exposure to the metals sector on the idea that EV demand will lead to large deficits should hold tight - buying now for potential deficits two years in the future whilst surpluses currently exist is a dangerous strategy. Producers have bounced back from the severe supply-hit caused by COVID and are now ramping up production.

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## Gold: Time to Short

After generating a bearish key day reversal (7th Aug), gold then entered into a technical pennant formation, from which it then broke out of, to the downside (21st Sep). Since then, gold has traded in a tight range (between 50 & 90 day trend lines). Over the coming weeks and months, expect gold to break lower for 3 key reasons: The likelihood of a US/global economic boom next year is growing (real and nominal bond yields to move higher); gold is a crowded Long trade (sentiment/positioning indicators) and short term gold models are close to Sell.

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## Grains gain again, but at what cost?

A perfect storm of already record low food producer CapEx, pandemic disruption, and shifts in the weather (e.g. the SOI turning sharply upwards) have driven a breakout in grain prices through a series of key technical levels. Callum Thomas views this as a great opportunity for investors, but also highlights a macro risk in that it may lift headline inflation at the margin and trigger social unrest in lesser developed countries.

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