IRF Independent Research Forum

The Cut - Edition 99

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IRF Podcasts

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'.

"China's Development Plans for 2021-2035"

Charles Hess, Inferential Focus

"The Big Liquidity Story"

Michael Howell, CrossBorder Capital

Company & Sector Research

— Europe

Bonduelle (BON FP) - Positive

Consumer Staples

The market is overreacting to the difficulties in the catering sector and neglecting Bonduelle's strong retail business, brands and long-term favourable prospects. Despite the company's significant financial leverage, they operate a stable business with a favourable geographical diversification of operations. Alezor normalised the company's earnings power through the cycle and found that €25 per share is a conservative valuation so significant upside potential.

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Alezor Research

Hargreaves Lansdown (HL/ LN) - Negative

Financials

Hargreaves Lansdown faces intense competition on numerous fronts. US based titan, Vanguard, has entered the UK with low cost index funds and low AuM fees (1/3 of HL/ LN) and are rapidly adding assets. Hargreaves still earns significant revenue from trading commissions (over 25% at as high as £11.95 per trade). Vision believes over time FreeTrade, 212 Trading, RobinHood (not yet present in the UK), and other firms will force commissions to zero, as in the US.

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Vision Research

Mediclinic (MDC LN) - Negative

Healthcare

StockViews proprietary risk system Dragonfly has highlighted multiple new red flags since Mediclinic has published its most recent results. The principal concern is rising receivables and the ageing of those receivables. Given its exposure to UAE and high debt levels, this is something to be aware of.

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StockViews

AstraZeneca (AZN LN) - Positive

Healthcare

AstraZeneca announced that its vaccine candidate for COVID-19 is up to 90% effective. They will be able to ramp up production much faster than competitors (Pfizer and Moderna). Its vaccines are less dependent on ultra-cold supply chains, which will give it a distinct advantage for distribution in warmer climates and EMs. Based on the response data, regulators may wish to complete its US study before making a decision. Despite the regulatory outlook, this is good news for the global effort to achieve herd immunity.

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Greenmantle

Rolls-Royce (RR LN) - Positive

Industrials

Following management meeting AIR are changing recommendation from Sell to Speculative Buy and price target from GBP 1 to GBP 1.80 as transatlantic flights restart. Forecasting better Q4 20 results than Q3 due to China. Power Unit will continue to suffer in H2 20 (Sales to drop Y-o-Y by -15% after -11% in H1) but rebound is expected from H1 2021, again, mainly through China.

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AIR

Ryanair (RYA ID) / Easyjet (EZJ LN) - Postive

Industrials

Holland Advisors believe the scale of pent up demand for leisure travel post Covid recovery will be enormous. A 'famine' wil become a 'feast' and expect Travel and Airline companies to make strong profits. With fewer big players, Ryanir and Easyjet stand to do very well offering cheap fares, lower than ever unit costs and with great returns on capital plus the right balance of cost and trust.

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Holland Advisors

— North America

GoDaddy (GDDY) - Positive

Communications / Technology

Is GoDaddy ready to resume share repurchases? Their most recent 3Q filing would suggest so. The wording was '.....*the amount and timing of future repurchases of our Class A common stock under any share repurchase program.....*'; compared to the Q2 filing which stated: '.....*the amount and timing of any repurchases of any Class A common stock under our share repurchase program......*' 2800first covers more than 1900 companies. Other companies with interesting insights following 3Q filings' analysis include: **NetScout, Citrix Systems, Ally Financial, Myriad Genetics, Tilray** and **Viavi Solutions**

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280First

Macy's (M) - Positive

Consumer Discretionary

Behind the Numbers are maintaining their BUY recommendation on Macy's after 3Q results that overcame estimates on EPS and revenues. As the company emerges from COVID, there remain several catalysts for further sales growth. The restructuring and movement toward more digital sales, its inventory movement and *vendor select* appear to show very positive results.

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Behind the Numbers

Dollar Tree (DLTR) - Positive

Consumer Staples

We may finally be seeing the development of a longer-term sales, operating margin and capital return story for a heretofore laggard stock. The company has been successfully testing a higher than $1 price point with plans to roll it out in 500 locations starting in Spring. Capital return efforts including $200mn of share repurchasing during the quarter - bullish for the stock. Meanwhile company trades at a significant discount to retail peers and own historical valuation.

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Quo Vadis Capital

Target (TGT) - Positive

Consumer Staples

R5 Capital visited a Target in Marietta and claimed that it was the best store they had visited. The store experience was delightful despite the current trying circumstances. The recent R5 consumer survey indicated that women still get a lot of pleasure going to a store to buy things like clothes, gifts and home goods. Target is clearly winning the hearts and minds of shoppers and performing very well in their 2020 ecommerce game.

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R5 Capital

Crunching the Natural Gas E&Ps - Positive

Energy

The natural gas E&P stocks have a lot of torque in their models - and cash costs for the good ones are low enough that they shouldn't go broke waiting for gas to rally. Expecting gas prices to rise to rise to $3.80 for 2023 from $2.69 today, which would mean stocks could soar. After extensive modelling focusing on all-in cost structures, Mike Churchill has become very bullish on **Diamondback**, **Range**, **Comstock**, **Blackstone** and **Cabot**.

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Churchill Research

Chubb (CB) - Positive

Financials

Chubb has consistently been one of the best global property & casualty insurance underwriters with a combined loss ratio that has averaged 7 percentage points less than its peers over 1, 3, 5 and 10-year time periods. With a strong management team, led by Evan Greenberg and disciplined capital allocation, the company is poised to benefit from the industry-wide rise in insurance pricing after years of under-pricing risk by the industry. Other long-term Boyar value plays include: **IAC, Mohawk** and **CocaCola**

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Boyar Research

Regime change – Here comes Tech rotation!

Healthcare

Tech stocks have been powered by Big Tech (US and China), as well as growth oriented names in the software as a service/cloud, payment and semis segment over last decade. Investors have backed these names, given the low interest rate environment, and a hunt for scarce growth in an anaemic macro environment. Now, with a potential trough in the macro outlook in sight, improved testing and tracing technologies, positive vaccine developments and a regime change for the sector are in the offing.

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Adnaan Ahmad

Macquarie Infrastructure (MIC) - Positive

Industrials

Maintaining Buy recommendation after Macquarie confirmed it will be selling its IMTT storage tank business for $10.75 per share. The gas utility will be likely sold early next year. That leaves Atlantic, and if not sold it is likely to acquire the parent company and be spun-off to investors as a pure-play of airport assets. Management has a financial incentive to complete all of this by end of '21. Sum of the parts shows stock should be $45 to $47 - currently trading at $33.

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Behind the Numbers

Gold sector - Best and worst stocks

Materials - Precious Metals

GMR reviews the nine larger gold stocks (>US$6B Mcap) after 3Q results. They have benchmarked the group across 10 key investment criteria which have then been aggregated into an overall score. These criteria include: production and NPV growth, costs, balance sheets, ESG factors, jurisdiction, FCF and dividend yields. On top is **Kirkland**, **Northern Star** and **Barrick** and at the bottom, **AngloGold**, **B2Gold** and **Newcrest.**

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Global Mining Research

Palantir Technologies (PLTR) - Negative

Technology

A data analysis platform built to drive valuable insights for both corporate and government customers. Its use cases for commercial customers are more limited due to its “all or nothing” adoption approach, high costs, and existing competition. As a result, Palantir’s TAM and growth opportunity are overstated. Lengthy sales cycles and an unpredictable lumpy business model creates a dynamic of potentially large earnings-misses quarter to quarter.

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Obex Capital Partners

Nvidia (NVDA) - Positive

Technology

According to Blueshift's channel checks Nvidia is only getting started in opening up a big lead over competition by delivering speed to customers via the cloud without those customers having to pay millions to develop their own in-house HPC clusters at a time when capital budgets are increasingly frozen or deeply reduced. Blueshift's checks are done through senior managers at high-performance computing, next-gen data centre fabric, and on-demand cloud companies.

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Blueshift Research

Penumbra - Negative

Technology

Tom Chanos (brother of Jim), through his latest *Bear Facts* report concludes that Pembura is insanely expensive at 17x Sales, 164x EBITA. They are losing market share to much larger competitors, their revenue growth is declining sharply from 40% to 5% and they are negative cash flow with increasing inventory. A defective medical product was responsible for at least 15 deaths, and other products are being recalled from the market. Meanwhile, there had also been heavy insider selling and principals leaving the firm.

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Badger Consultants

Palo Alto (PANW) - Positive

Technology

Last week, Palo Alto announced their acquisition of Expanse. In Sales Pulse's view, however, their announcement of their new DLP solution was even more impactful. This product leverages their existing security devices and services for inspection and policy management. This further broadens its appeal as a security “platform,” and shows how the vendor can utilise their installed base to add new services and increase share of wallet.

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Sales Pulse Research

— Emerging Markets

XP (XP US) - Negative

Financials

Brazilian wealth manager and broker XP is in an IFA "arms race" with its competitors - and especially with arch-rival BTG Pactual - that threatens its premium EBITDA growth and its stretched valuation. It also has to contend with increased competition in retail brokerage; Nubank acquired digital broker Easyinvest, BTG Pactual acquired online broker Necton Investimentos and Banco Modal formed a strategic alliance with Credit Suisse in wealth management. In addition, Itau's plannedspin-off of its XP holding and a 5% stake sale implies stock overhang.

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Galliano's Latin Notes

Ming Yuan Cloud (909 HK) - Positive

Technology - Real Estate

China's real estate industry is entering a period of stable and sustainable development, while confronting the challenge of maintaining margin growth. Demand for digitalisation grows higher; the penetration rate of software solution is less than 0.1%. Play this through Ming Yuan Cloud which is market leader in providing cloud-based software services to the Chinese real estate companies. Horizon has produced an in-depth report on the company.

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Horizon Insights

African Telecos - Data traffic trends - Positive

Telecommunications

New Street analysed the internet exchange traffic patterns of Nigeria, South Africa, Ghana, Uganda, Kenya and Tanzania to determine changes since lockdowns have eased. SA and Nigeria are seeing positive trends, which is good for **MTN** and **Vodacom**. For Ghana and Kenya traffic has normalised. While in Ghana, traffic has fallen below pre-Covid levels. In Tanzania and Uganda traffic declined sharply, but there has been some recovery.

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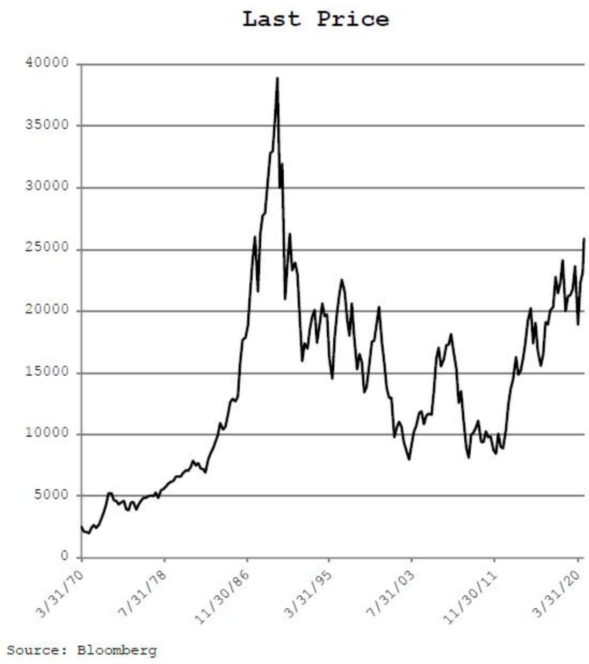
New Street Research

Macro Research

— Chart of the fortnight

The sun is rising in Japan

It's going back to all-time highs, and then some. Japan is the ultimate value play. It is also the ultimate reflation play, and, as Buffett expressed it, it also the ultimate commodities play. There is nothing not to like here!



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The Daily Dirtnap

— Developed Markets

US: Yellen's Reform

Tim Bond explains how Yellen's appointment will oversee an increase in regulatory oversight over the potentially implosive financial system, with bank capital standards forced higher and underwriting standards more strictly governed. Large asset managers and hedge fund managers will no longer be able to exercise such a free hand. Many other changes are underway, and the odds of reform are higher than in any preceding administration.

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Tim Bond Global Speculations

Biden's to accomplish little in trade agreements

Inheriting a long list of trade disputes and potential trade deals, Biden has a lot to consider when he enters office. He may have adopted a different tone to that of Trump's "America First", but, in reality, his narrative differs only little. Whilst he will manage a ceasefire with the EU in the Boeing-Airbus dispute, he will accomplish little else, and tariffs on China will remain in place.

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Greenmantle

This stock market boom is different

The run-up in the S&P 500 in recent weeks to levels near 10 per cent above the pre-pandemic peak has follows with the tremendous optimism of a post-pandemic boom starting as soon as next Spring, coupled with an early rise of inflation, meaning real interest rate fall to even more negative levels. There are many grounds for scepticism about this narrative – along with other sub-stories, such as benign advancement of digitalisation and increased operational efficiency.

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Macro Hedge Advisors

Demographics of the Biden Presidency

Re-establishing growth in the labor force by restoring the participation rate to pre-pandemic levels is insufficient because population growth during the Trump Presidency was the lowest in the post-war period. Although a reduction in the natural rate of increase (births minus deaths) is playing a role in slower growth in the population, the much more decisive factor is much lower net immigration; a direct consequence of the administration's anti-immigrant policies.

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Hokenson Demographics

US: The fiscal cliff is already behind us

Funding for the most important Congress-funded Covid programs has largely expired. Household balance sheets remain robust, shielding the impact of the end of the Cares Act forbearance in the new year. With fiscal policy already exceptionally simulative, the economy is more at risk of shutdowns than of the fiscal cliff. Stay positive short- and medium-term equities.

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Dwor-Frecaut Macro

A tale of toggle PIKs

The seeds of financial crises tend to be sown after long periods of low interest rates, bringing forth an eager appetite for risky assets with returns out of line with the level of risk involved. The recent sale of several toggle PIK (payment in kind) issues in the US high yield market has a similar flavour to it: investors should watch carefully.

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Llewellyn Consulting

Eurozone: In the shadow of the global boom

Major economies in the Eurozone face a number of near term challenges as they are currently locked down, leading indicators have started rolling over and credit conditions have once again tightened up. However, In first half of next year growth outlook is distinctly positive given both strong monetary and fiscal support and a backdrop of reaccelerating global economic and trade growth. Eurozone is a play on global growth.

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Longview Economics

UK defence spending plans to fall short

UK defence has been under-funded and under-resourced for many years. Therefore, the recent announcement of £16.5bn spending plans will see little impact; the money will be spent on far too wide a range of areas to have notable impact, and includes plugging the existent financial hole in the MoD's equipment plans. One also has to ask: in the face of Covid-19, will such commitments even be met?

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Oxford Analytica

Global central banks hold steady

Aggregate liquidity growth is edging higher but is still within the narrow range established in early October (21.8% 3m ann.). The US and Euro area economies are losing momentum and the UK will follow suit. Some US$6tr of Covid19 emergency funding is in the pipeline so, with economies slowing again, liquidity growth will pick up in coming weeks - the exception being Japan which will benefit from China's economic resilience.

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CrossBorder Capital

Does government stimulus really stimulate?

The 2020 experience shows monetary and fiscal actions to stimulate output are ineffective, but they do redistribute wealth and transfer debt from the private to the public sector. HCWE's study finds strong evidence showing that the economic rebounds can be explained through their handling of shutdowns and re-openings – public policy should promote resilience and not dependence.

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HCWE & Co.

Monetary policy to remain accommodating in '21

DM central banks will err on the side of reflation in 2021. Momentum in the economic recovery will not see the Fed changing its stimulative policy and the ECB will remain extremely accommodative. The BOJ faces the least amount of pressure to shift, reinforcing the central banks bias to keep rates anchored. Although pressure is higher in developed commodity markets, central banks are forced to keep rates low to ensure that housing/domestic excesses do not come home to roost.

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MRB Partners

Financial repression mutes bond recovery

Secular stagnation has pushed long-end rates to low levels. But it also seems clear that rates will be less responsive – not unresponsive – to cycle swings because of policy interference. So even if the expansion is robust, which Gerard Minack has near-term doubts about, the lift in rates will be modest. That also implies that if the cycle rolls over, bonds will not provide the return cushion to equities that they have in the past.

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Minack Advisors

— Emerging Markets

China: Rapid growth, fragile underpinnings

China's rapid economic recovery belies a fragile financial system and foreign policy position. Despite strong optimism for next year, the reality is economic growth has been weaker than Beijing wanted and will fall below 7% in 2021. The deleveraging push continues, leading to more increasing defaults and regulatory crackdowns. With Biden soon to be President, Chinese foreign policy will pivot back from "wolf warrior" to "panda" diplomacy.

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Greenmantle

Big results in little China

Represented by mid-stream companies, high-elasticity industries will surprise the market with upbeat performance results – the opportunity to participate remains even as buoyant earnings have materialised. Although economic growth will continue to spur on, investors should be more conservative as in the short run the equity market will be unable to outrun the bond market (assuming a one year holding period).

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Horizon Insights

Stability focus and the RMB

Vice-Premier Liu attempted to calm nerves in the corporate bond market with the NFRSC, but his messages will not achieve the desired effect. It's not just defaults that have credit investors spooked, but also the machinations of local officials and SOE executives to protect some entities and interests at the expense of creditors that may take place long before actual credit events are announced.

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PRC Macro

Chemicals data confirms patchy rebound

September Capacity Utilisation (CU%) data shows a contrast between current economic rebounds and the widespread V-shaped rebounds across the world in 2009. China has been the motor behind the recent rebound. However, it's a zero-sum game this time around; unlike 2009 when China's stimulus boosted global demand, its main impact in 2020 has been to maximise its share of the cake.

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The pH Report

Behind China's V-recovery

China's widely-hailed 'V-recovery' is a function of "sticking to the economic plan." With China directing its paltry stimulus to a supply side that never actually experienced a shutdown, small businesses and households are left to bear the costs of the Covid disruption. Behind the "V-recovery" in production lies a scarring of the engines of organic economic activity, with bearish ramifications for Chinese assets and the RMB.

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Macrolens

Resilient Asian growth despite global headwinds

The resurgence of covid in DM countries and the oncoming loss of fiscal support in the US economy puts Asia's recovery at risk, but damage will be limited. DM monetary policy will be eased further and the rollout of vaccines is to be faster than expected while the tech cycle provides resilience to Asian exporters.

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Centennial Asia Advisors

Commodities

Obsolete Bitcoin

Central Bank Digital Currency (CBDC) will transform the banking and payments industries and render bitcoin obsolete as a medium of exchange (for tax reasons if no other). Expect digital Yuan by February 2022 and digital euro/digital dollar shortly thereafter. The programmability of digital Yuan offers China the opportunity to displace USD in trading relationships without exposing the capital account to global market forces. More broadly, the USD's status as a reserve currency will be challenged, altering the norm that has dominated global markets for sixty years.

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Rennaissance Macro Research

Macro positioning

Global equities saw the largest two-week inflows on record and cryptocurrency inflows rocketed too. Debt hit a new record at $16.5 trillion. Commodity interest continues to rise, in most cases faster than fundamentals are suggesting. Speculative positioning seems to be driving markets higher, and in Kathleen Kelley's view continues to leave them vulnerable to near term corrections.

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Queen Anne's Gate Capital

Every solar panel has a silver lining

Although loadings of silver on solar panels has fallen dramatically, demand for solar panels in global decarbonisation efforts will rise so as to see 1bn oz of silver demand added to current levels. Silver prices will outperform gold and will uncouple from the metal for the first time in many years. Calls include overweight Pan American Silver (PAAS), playing silver ETFs incl. SVR or SVR, and more.

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Very Independent Research

Oil in 2021: The bull runs further

Three top level themes will determine the tightening of the global oil market in 2021: OPEC's strong supply discipline, a recovery in oil demand and weak US production growth in 2021. Those three factors will continue to drive large deficits of ~1.3mbpd in Q4 and 2021. The fall in inventories of 65m barrels next year as a result will drive the oil price to $60.

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Longview Economics

Iron Ore

Commodities

The continual strong run in Chinese blast furnace crude steel production in the range of 1.1B tonnes means iron ore imports are high. Imports would be lower if they could be, because China is having one almighty trade war with Australia and has effectively banned many commodities. For iron ore, however, there are few other places for the Chinese to go (currently).

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Global Mining Research

IRF works with 260 Independent Research Providers and Specialist Data Providers, which cover all the major Asset Classes, Sectors and Regions utilising a variety of methodologies.

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