

# Corporate algorithm picks for 2020: FB, DSY, INTU, Henan, Aisino. Top 10 predictions for 2020

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## Agenda:

- Corporate algorithm: smart use of cash, costs, B/S; I/S, safe capital structure, low public ownership level, ROC
- 2019 algorithm returns— US: 31%; EUR: 25%; Asia: 17%; PRC 11%
- Best sector: Healthcare, Tech, Consumer. Best countries: France, China, US. Facebook, Dassault, NVDA, Henan, Aisino

**1. 2019 review: Good overall performance. Our corporate algorithm looks at the interaction between the balance sheet and income statement (PPT pages 3 - 6). Our early 2019 reports for these recommendations are in the Schulte-Research.com library**

**A. The algorithm combines this superior interaction of efficiency and safety (the very best returns on capital with the safest balance sheet) and marries this with valuations as well as the level of crowdedness of the trade.**

**B. The 2019 portfolio we published in February focused on Ross, Home Depot, Nike, Novo and Atlas in developed land. It focused on Henan and Advantech in Taiwan with a few poor performers in GEMS. In China, it focused on Anta, Inner Mongolia, Huadong.**

**C. The poor performers were in Indonesia and India: CP and Hero. Kingnet, Dong E Jiao in China. A. First, we recap our calls from early 2019.**

**2. 2020 portfolio: Algorithm sorted through > 1,000 stocks. The best markets for cheap stocks with safe capital structures, good returns, efficient cost structures, high cash levels and uncrowded trades are in the US, France and China.**

**A. The algorithm is highlighting the US equity market as the best market in the OECD for the best value with the safest growth and uncrowded trades. France and China come up next. Within the emerging markets, China has an overwhelming share of cheap stocks with decent returns and safe balance sheets. Our portfolios are looking for expected ROEs of the mid-30s. Almost all of them have net cash positions. They are uncrowded. They have very high Altman z credit scores. The cheapest is in China followed by emerging markets.**

**B. The DEVELOPED top picks are found in IT and healthcare. ISRG, YNDX, TXN, EW, INTU, FB.** In the developed world, the stocks which the algorithm likes are almost all found in the US. In Europe, the algorithm likes consumer and healthcare: L'Oreal, Dassault, Hermes, Novo (pages 7 - 9 of PPT).

**C. GEMS top picks are largely found in China. India also looking interesting. Henan, Inner Mongolia, HCL, LG Household and Hero Motor.** The Chinese non-financial corporate equities are among the cheapest globally (pages 10 - 11 of PPT).

## Developed Markets – Top 5

#	Ticker	Short Name	Industry	Market Cap (\$US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt (\$US Billion)	YTD Return(%)
1	FB US Equity	FACEBOOK INC-A	Communication Services	552.2	27.6	90.7%	24.1	5.9	-41.1	47.7
2	MNST US Equity	MONSTER BEVERAGE	Consumer Staples	30.6	23.4	85.9%	24.1	7.6	-1.0	14.3
3	NVDA US Equity	NVIDIA CORP	Information Technology	123.4	22.7	82.5%	33.1	11.9	-5.4	52.2
4	INTU US Equity	INTUIT INC	Information Technology	66.7	20.3	77.8%	67.5	17.8	-2.3	31.3
5	7741 JP Equity	HOYA CORP	Health Care	33.1	19.3	83.8%	17.4	5.6	-2.7	43.8
Averages				161.2	22.7	84.1%	33.2	9.8	-10.5	37.9

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## Asia/Emerging Markets – Top 5

#	Ticker	Short Name	Industry	Market Cap (\$US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt (\$US Billion)	YTD Return(%)
1	HCLT IN Equity	HCL TECH LTD	Information Technology	22.2	8.6	64.2%	27.2	3.7	-1.0	20.7
2	051900 KS Equity	LG HOUSEHOLD & H	Consumer Staples	17.0	9.7	69.4%	23.4	4.8	0.1	14.4
3	000895 CH Equity	HENAN SHUAN-A	Consumer Staples	14.2	10.2	62.9%	31.9	6.6	-0.1	30.3
4	600887 CH Equity	INNER MONG YIL-A	Consumer Staples	25.5	8.3	64.6%	25.6	7.1	-1.8	31.9
5	HMCL IN Equity	HERO MOTOCORP LT	Consumer Discretionary	7.5	9.5	62.0%	N.A.	4.0	-0.4	-12.1
Averages				17.3	9.3	64.6%	27.0	5.2	-0.6	17.0

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### 3. What's in store for 2020: Predictions

**A. The fourth year of a Republican administration is a dull one for equities since 1924.** The average returns are ZERO. There have been two calamities, so betting on a fat tail event is premature. Also common in year 4 of Republican administration is quieting down of bellicose language as they focus on winning.

**B. Republicans have an excellent track record on winning a second term: actually its 75%.** THE ONLY 2 TIMES A REPUBLICAN HAS LOST WAS AFTER FOLLOWING A 2 TERM REPUBLICAN PRESIDENT — 1908 and 1988. THE TRACK RECORD OF A FRESH REPUBLICAN INCUMBENT (AFTER DEFEATING HIS DEMOCRAT OPPONENT) WINNING HIS SECOND TERM THIS PAST 120 YEARS IS 100%.

#### C. Predictions:

1. Christine Lagarde will be the star of 2020 for their unorthodox use of fiscal policy (getting the Germans to spend) in 2020 to resuscitate Germany and cause it to deploy its surpluses. Spain, Italy and Greece can't do anything else.
2. China will surprise on the upside as the fire breathing "reds under the bed" rhetoric dies down during the election.
3. The epicenter of the brewing problems will be student debt and strains on universities – look at university cities to see the strain and the new debt problems. Raleigh Durham, LA, Boston, Madison could begin creaking.
4. Hong Kong will need to engage in massive fiscal stimulus (USD 10 - 20bn) to save the city from imploding, since grey market high-end property prices are down 25 - 35% and about 20% of some international schools are already cleared out. Mass public housing projects.
5. Something has to give with the millennial drug problem. New nationwide drug rehab cookie-cutter chains need to be developed ASAP to deal with the runaway problem of opioids and meth.
6. Indonesia will be the darling market of 2020. Big IPO for Tokopedia and Gojek grows larger. Singapore will boom as money moves quickly from HK to the Lion City. The government will keep a lid on housing but the capital will slosh into equities, corporate activity and isolated pockets of real estate speculation like Sentosa Island.
7. A Bloomberg-Buttigieg ticket will lose to the Republican ticket in 2020.
8. The Euro will fall a lot as the ECB does massive easing along with fiscal slippage while the SE Asian currencies will be stronger than expected. The Aussie dollar will lose the most in Asia.
9. Brazil will have a market meltdown and FX blowout as it realises that it's lending structure and government coffers are empty.
10. Eastern Europe equities will be the global star performer in 2020 — Hungary and Poland!

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# Review of 2019 Corporate Picks

# Update on Developed Portfolio recommended in Feb 2019

Developed Markets Portfolio	Equity	Name	Country	YTD
1	ULTA US Equity	Ultra Beauty	US	-9.4%
2	ROST US Equity	Ross Stores	US	23.1%
3	HD US Equity	Home Depot	US	31.2%
4	7974 JP Equity	Nintendo	US	42.2%
5	NKE US Equity	Nike	US	18.7%
6	9843 JT Equity	Nitori	Japan	16.0%
7	NOVC GR Equity	Novo Nordisk	Denmark	18.5%
8	ITX SM Equity	Inditex	Spain	21.8%
9	ATCOA SS Equity	Atlas	Sweden	59.6%
<b>Average</b>				<b>24.6%</b>
<b>SPX</b>				<b>20.6%</b>

## Update on GEMS Portfolio recommended in Feb 2019

Emerging Markets Portfolio	Equity	Name	Country	YTD
1	000895 CH Equity	Henan Shuan	China	29.1%
2	000423 CH Equity	Dong E-E-Jiao	China	-10.0%
3	CPIN IJ Equity	Charoen P Indo	Indonesia	-4.3%
4	HMCL IN Equity	Hero Motocorp	Indonesia	-9.7%
5	2395 TT Equity	Advantech	Taiwan	42.2%
6	PETD MK Equity	Petronas Daganga	Malaysia	-8.5%
<b>Average</b>				<b>6.5%</b>
<b>SPX</b>				<b>20.6%</b>

## Update on China Portfolio recommended in Feb 2019

China Portfolio	Equity	Name	Country	YTD
1	2020 HK Equity	Anta Sports	Hong Kong	126.7%
2	000895 CH Equity	Henan Shuan	China	29.1%
3	600887 CH Equity	Inner Mogolia Yili	China	29.6%
4	002517 CH Equity	Kingnet Network	China	-36.1%
5	000963 CH Equity	Huadong Medicine	China	23.0%
<b>Average</b>				<b>34.5%</b>
<b>SPX</b>				<b>20.6%</b>



# 2020 Corporate Picks

# US Top 5

#	Ticker	Short Name	Industry	Market Cap (\$US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt (\$US Billion)	YTD Return(%)
1	ISRG US Equity	INTUITIVE SURGICAL	Health Care	64.6	35.2	94.9%	N.A.	8.3	-3.1	16.8
2	YNDX US Equity	YANDEX NV-A	Communication Services	11.1	19.8	90.4%	17.4	3.6	-1.0	23.8
3	TXN US Equity	TEXAS INSTRUMENT	Information Technology	110.3	13.8	58.8%	42.0	12.3	0.8	28.4
4	EW US Equity	EDWARDS LIFE	Health Care	49.4	15.8	86.1%	27.5	12.9	-0.36	54.6
5	INTU US Equity	INTUIT INC	Information Technology	66.7	20.3	77.8%	67.5	17.8	-2.3	31.3
Averages				60.4	21.0	81.6%	38.6	11.0	-1.2	31.0

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Averages				161.2	22.7	84.1%	33.2	9.8	-10.5	37.9

# Europe – Top 5

#	Ticker	Short Name	Industry	Market Cap (\$US Billion)	Altman z-score	Market Expectation/ALT z-score	ROE(%)	P/B	Net Debt (\$US Billion)	YTD Return(%)
1	DSY FP Equity	DASSAULT SYSTEME	Information Technology	40.4	8.1	77.8%	15.0	7.0	-2.1	32.8
2	RMS FP Equity	HERMES INTL	Consumer Discretionary	76.6	16.5	81.8%	25.5	11.9	-2.6	35.2
3	OR FP Equity	L'OREAL	Consumer Staples	163.4	8.8	84.5%	14.9	5.4	-3.2	31.5
4	NOVOB DC Equity	NOVO NORDISK-B	Health Care	137.2	12.3	73.8%	80.7	17.3	-2.3	31.5
5	NLMK RM Equity	NOVOLIPETSK STEE	Materials	12.0	6.0	29.2%	24.4	2.1	0.9	-7.6
Averages				85.9	10.3	69.4%	32.1	8.7	-1.9	24.7

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Averages				17.3	9.3	64.6%	27.0	5.2	-0.6	17.0

# China – Top 5

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2	000423 CH Equity	DONG E-E-JIAO-A	Health Care	3.3	8.1	65.1%	21.8	2.1	-0.7	-8.7
3	000895 CH Equity	HENAN SHUAN-A	Consumer Staples	14.2	10.2	62.9%	31.9	6.6	-0.1	30.3
4	002304 CH Equity	JIANGSU YANGHE-A	Consumer Staples	22.0	8.3	68.9%	23.3	4.3	-3.1	11.1
5	600271 CH Equity	AISINO CORP-A	Information Technology	5.5	5.9	49.1%	17.4	3.3	-1.3	-7.1
Averages				14.1	8.2	62.1%	24.0	4.7	-1.4	11.5