

February 2020

Best Ideas are chosen by our analysts and consist of Buy- and Sell-rated stocks in which we have our highest conviction, and which have identifiable near-term catalysts to drive out-/under-performance (within a three- to six-month time horizon). Our Best Ideas list reflects the firm's 10 Best Ideas each month. Additions and removals reflect a regular monthly ranking of ideas by our Best Ideas committee, rather than necessarily signalling a change of investment view, which would only be made via a formal rating change outside of the Best Ideas publication.

Please contact sales@arete.net or our analyst teams to discuss these ideas in more detail, or to request individual notes and models.

BEST IDEA LONGS

NEW LONGS:

Anaplan [PLAN US]

EXISTING LONG IDEAS:

Altice Europe [ATC NA]

Altice USA [ATUS US]

Qualcomm [QCOM US]

Salesforce.com [CRM US]

Telecom Italia [TIT IM]

REMOVED LONG IDEAS

Alphabet [GOOG US]

BEST IDEA SHORTS

NEW SHORTS:

Pinduoduo [PDD US]

Qualys [QLYS US]

EXISTING SHORT IDEAS:

Skyworks Solutions [SWKS US]

Teradata [TDC US]

REMOVED SHORT IDEAS

Oracle [ORCL US]

Xiaomi [1810 HK]

UPCOMING EVENTS:

Criteo NDR

18 Feb. | London, UK

Dinner with Fortinet Management & Accelerate Conference

18-19 Feb | Barcelona, Spain

MWC 2020

24-27 Feb. | Barcelona, Spain

RSA 2020

24-28 Feb. | San Francisco, CA

Internet European Company Meetings

3-4 Mar. | Paris, France & Berlin, Germany

Semis Asia Tour

6-10 Mar. | Japan & Korea

Arete's Global Best Ideas by Sub-Sector

Semiconductors

Qualcomm (Long)

Ticker: QCOM US-\$88.93 | **Market Cap:** \$102bn | **Rating:** **BUY** | **PT:** \$112 | **PT Date:** Sep. '20 | **Upside:** 26%

Research Analysts: Brett Simpson, Karina Sutija

We continue to think the recovery in iPhone sell-through will boost QTL in FY20 while 5G is going to drive a multi-year inflection for QCT. The near-term impact from the China coronavirus risks near-term are difficult to forecast, but Qualcomm will benefit from new 5G chip launches, flagship launches at MWC such as the Samsung GS11, while its gains in RF should be taken positively, in our view. In total, we still see Qualcomm growing to \$12bn in FY21, across modems, SoCs and RFFE. Trading at a deep discount to the SOX, at 14x our FY21E EPS (excluding any Huawei royalty contribution), we think its valuation is compelling, with a unique medium-term growth outlook from 5G. For our latest research on Qualcomm, please click here – [Semis 2020: Where Are We Heading?](#) (Dec. '19), [Qualcomm: Cometh the Hour](#) (Nov. '19), [5G 2020: Build, Build, Build](#) (Nov. '19), [Qualcomm: QCT Call Takeaways](#) (Oct. '19), and [Qualcomm: Looking Beyond a Messy 2019](#) (Aug. '19).

Skyworks Solutions (Short)

Ticker: SWKS US-\$117.96 | **Market Cap:** \$20.1bn | **Rating:** **SELL** | **PT:** \$86 | **PT Date:** Sep. '20 | **Downside:** 27%

Research Analysts: Karina Sutija, Brett Simpson

Following earnings, we maintain our view that Skyworks' stock reflects the expectation that the company will acquire Broadcom's RF business. **We do not think such a sizeable deal is feasible for Skyworks, particularly if it does not do an equity raise, which puts risk around Skyworks' stock at current levels, in our view – trading at ~18x P/E on a standalone basis.** While most semiconductor companies have yet to comment on demand/supply slow-down tied to the coronavirus outbreak in China, it could create supply chain risk for Skyworks, though it is still too early to quantify. While Skyworks management are not attending MWC, we suspect that any positive news flow around QCOM's RF positioning at the event may shift investor sentiment around Skyworks' opportunity in 5G. For our latest research on Skyworks Solutions, please click here – [Skyworks: AVGO RF Sale](#) (Jan. '20), [Skyworks: Winter Chill](#) (Nov. '19), [5G 2020: Build, Build, Build](#) (Nov. '19), [Skyworks and Qorvo: 5G Fatigue?](#) (Sep. '19) and [5G RF: Is the Party Over Before It Begins?](#) (Sep. '19).

Internet / Retail & Digital Consumer

Pinduoduo (Short)

Ticker: PDD US-\$36.51 | **Market Cap:** \$42.4bn | **Rating:** **SELL** | **PT:** \$30 | **PT Date:** Dec. '20 | **Downside:** 18%

Research Analysts: Marcus Yang, Richard Kramer

Pinduoduo's market share gains, in particular from Alibaba, involved some questionable accounting for GMV and users, and have invited a sharp competitive response: first, we are seeing **accelerating efforts by Alibaba to form exclusive partnerships with merchants, partly to suppress Pinduoduo's supply of goods.** We do not see Chinese antitrust authorities acting swiftly enough to limit damage from these deals. And second, **WeChat banned incentivised sharing, which we think will translate into slower user growth or higher CAC for PDD, which has seen its app downloads plummet.** Neither issue can be easily resolved quickly, in our view. We also don't see PDD benefitting from the coronavirus, given poor sentiment around consumption and its reliance on third-party logistics firms, which may see operations curtailed. For our latest research on Pinduoduo, please click here – [China Internet: Subtle Sentiment Shifts](#) (Feb. '20). and [Pinduoduo: Falling Between Two Stools](#) (Jan. '20)

Cable, Satellite & Media/Telecom Operators

Altice Europe (Long)

Ticker: ATC NA-€6.52 | **Market Cap:** €7.76bn | **Rating:** **BUY** | **PT:** €11.9 | **PT Date:** Dec. '21 | **Upside:** 83%

Research Analysts: Andrew Beale, Hannah Kleiven

It has been a busy couple of months for Altice Europe: it sold both 49.99% of Portugal FTTH and 25% of Omtel (Portuguese towers), refinanced some International debt, dismantled its Lux debt structure, and made a bid for Partner in Israel. ATC's premium monetization of fibre assets in France and Portugal has turned capex "liabilities" into "assets" in partnership with infrastructure investors, with proceeds applied to reduce debt, enabling refinancing. **We see further monetizable assets** (e.g., ATUS stake, deferred Portugal FTTH proceeds, Teads, French co-investment fibre, residual French towers...) on its path to 4.25x "Telecom" leverage. **ATC has now achieved over half of its targeted €700m interest savings, with the remainder likely achievable and assisting a return to positive FCF.** Organically, we see SFR's execution improving in a better pricing environment, **expecting 2020 guidance to exceed consensus.** With buybacks potentially following asset dispositions and debt reduction, we continue to see **80+% upside** in the shares. For our latest research on Altice Europe, please click here – [Altice Europe: Transformation Continuum](#) (Jan. '20).

Altice USA (Long)

Ticker: ATUS US-\$28.06 | **Market Cap:** \$17.9bn | **Rating:** **BUY** | **PT:** \$41 | **PT Date:** Dec. '20 | **Upside:** 46%

Research Analysts: Andrew Beale, Hannah Kleiven

ATUS will need to demonstrate in 4Q19 results that customer trends returned to normal in December, following the drag from double roll-offs of promos impacting Sep.-Nov. '19. **With confident (4-5% increase in Feb.) pricing, mobile and FTTH growth likely picking up and a second-half political advertising cycle to come, we see a re-accelerating top-line (particularly in 2H20).** ATUS shares trade at only 12.1x and 11.0x EV/opFCF in '20E/'21E, and 10x/8x FCF (respectively) – **and at an almost a record discount to Charter's multiples.** The judgement in the State AG suit to block T-Mobile/Sprint will determine whether ATUS's full MVNO on Sprint potentially has huge strategic value or just helps ATUS to achieve faster mobile growth. Given ATUS's marginal cost of debt is 4% pre-tax vs. a 10% equity FCF yield, we see the shares appreciating as equity is retired, even if a possible merger with Charter could bring much greater strategic upside. For our latest research on Altice USA, please click here – [US Cable/Telcos/Satcos: Lawsuits, C-Band & Prisoner's Dilemma](#) (Dec. '19), [Altice USA: The Mobile Booster](#) (Sep. '19), [US Wireless/Cable: 4->4 Consolidation Winners & Losers](#) (Jul. '19), [The Telco Telex: 4 to, er, 4 US Wireless "Consolidation"?](#) (Jul. '19) and [CHTR/ATUS: Better Together?](#) (Jun. '19).

Telecom Italia (Long)

Ticker: TIT IM-€0.4918 | **Market Cap:** €10.2bn | **Rating:** **BUY** | **PT:** €1.01 | **PT Date:** Dec. '20 | **Upside:** 105%

Research Analysts: Charlotte Perfect, Andrew Beale

Telecom Italia (TIM) is trading below our sum-of-parts valuation (€0.59/share in '20E), with TIM Italy implied multiples reflecting domestic challenges (9.3x EV/OpFCF in '20E) and Italy "equity" imputed at only ~€3bn. The potential creation of "FiberCo" – merging TIM's FTTH roll out with Open Fiber – does not seem to be reflected in TIM's share price. **We see ~€7bn in potential synergies, and the resulting fibre access quasi-monopoly would justify a valuation premium.** Despite recent newsflow of talks stalling, we see a deal as so compelling for all parties they should agree on a deal. TIM could deconsolidate FTTH capex and achieve savings from shutting its copper network, which together with TIM's share of the synergies adds ~67c in value per TIM share, and would imply a negative value for TIM Italy's equity. Our €1.01 price target assumes a 50% probability of this FiberCo deal as well as other smaller value-creating opportunities. For our latest research on Telecom Italia, please click here – [Telecom Italia: Free Italian Lunch?](#) (Nov. '19).

Enterprise Software & IT Services

Anaplan (Long)

Ticker: PLAN US-\$63.40 | **Market Cap:** \$8.5bn | **Rating:** **BUY** | **PT:** \$70 | **PT Date:** Dec. '20 | **Upside:** 10%

Research Analysts: Louis Lardenois, Adam Shepherd

Anaplan's 3Q20 results suggest healthy momentum – billings were excellent, up 59% yoy, and accelerated sequentially, helped by a record number of 7-figure expanded deals (from both existing and new customers). This is entirely consistent with our CIO work, which continues to surface rapid expansion and limited competition. Anaplan's planning solution has significant potential in many accounts, as it replaces a combination of shelfware and Excel-based workarounds in a broad range of use cases. Over 50% of enterprises we have surveyed are using it in more than one department, and we continue to surface data-points that suggest a significant upsell opportunity. Our DCF-based target price of \$70 implies 10% upside. For our latest research on Anaplan, please click here – [Software 2020 Outlook: Live, Die, Repeat](#) (Jan. '20).

Salesforce.com (Long)

Ticker: CRM US-\$188.34 | **Market Cap:** \$167bn | **Rating:** **BUY** | **PT:** \$215 | **PT Date:** Dec. '20 | **Upside:** 14%

Research Analysts: Adam Shepherd, Louis Lardenois

CIO feedback suggests most enterprises are investing in Salesforce, despite concerns about aggressive sales behaviour and pricing ratchets. Salesforce underpins many CIOs' digital transformation efforts, and we see nothing to imply a rapid deterioration in growth prospects. Consensus expectations of \$20.9bn in sales are conservative, in our view, and do not fully reflect the potential upside from Tableau. Initial feedback on the acquisition has been positive – we think that Salesforce can open new accounts and increase penetration in overlapping customers, helping boost Tableau's growth. We see no reason why the company cannot sustain its current ~7x FY21E EV/Sales multiple into FY22 (CY21). For our latest research on Salesforce.com, please click here – [Software 2020 Outlook: Live, Die, Repeat](#) (Jan. '20).

Qualys (Short)

Ticker: QLYS US-\$87.41 | **Market Cap:** \$3.4bn | **Rating:** **SELL** | **PT:** \$71 | **PT Date:** Dec. '20 | **Downside:** 19%

Research Analysts: Patrick Colville, CFA, Adam Shepherd

2019 was the year when Qualys transitioned from being a high-growth vendor to a company in a maturing phase. Qualys is being stymied by Rapid7 and Tenable, which are catching up in vulnerability assessment, and the lack of a meaningful second act. Consensus estimates calling for billings to rise 14% in FY20 – or no YoY deceleration – look to be based on growth of non-proven products and are at risk of disappointing, in our view. Qualys's valuation has compressed over the past year, with shares trading at 25x NTM P/FCF and 34x NTM P/E, but this remains ~10 turns above where Qualys bottomed in 2016. **We expect shares will continue to underperform given a likely miss vs. consensus top-line expectations and our belief that profitability will plateau.** For our latest research on Qualys, please click here – [Cybersecurity Superheroes: 4 Ideas for 2020](#) (Jan. '20) and [Qualys: Embattled Leader](#) (Nov. '19).

Teradata (Short)

Ticker: TDC US-\$24.23 | **Market Cap:** \$2.7bn | **Rating:** **SELL** | **PT:** \$19 | **PT Date:** Dec. '20 | **Downside:** 22%

Research Analysts: Adam Shepherd, Louis Lardenois

We think Teradata is a business in terminal decline as competitive pressure ramp. Product sales appear set to fall ~\$250m in FY19E with no acceleration in ARR. This suggests churn is increasing and/or a rapid fall in pricing. The hopper of customers getting ready to depart is growing, based on CIO feedback. Our work also suggests that Snowflake is proliferating rapidly in very large enterprises – the rise of this business and the incremental decline in TDC are correlated, in our view. Our \$19 target price is based on a 14x P/FCF FY20E multiple and implies a ~1.5x FY20E EV/revenue recurring multiple. For our latest research on Teradata, please click here – [Software 2020 Outlook: Live, Die, Repeat](#) (Jan. '20).

Recent Notes Published

Report/Comment	Date	Analyst	Price Target
Facebook: Not a Desert Island	5 Feb. '20	R. Strauss	\$215
STMicroelectronics: The Re-Rating Game	5 Feb. '20	J. Fontanelli	€30.3
CIO Series: 2 CISOs on Okta	4 Feb. '20	P. Colville, CFA	—
Liberty Global: Infra Inside	4 Feb. '20	A. Beale	\$30.7
China Internet: Subtle Sentiment Shifts	4 Feb. '20	M. Yang	—
Intel: A Falling Empire?	31 Jan. '20	B. Simpson	\$54.9
Memory: Hitting the Reset Button	30 Jan. '20	N. Kim	—
Call Transcript: Regulating Big Tech	30 Jan. '20	R. Kramer	—
Digital Ads: Cookie Wars	29 Jan. '20	R. Strauss	—
Takeaway.com: Turnip the Beet	28 Jan. '20	R. Strauss	€95
Soitec: Le Grand Cru	23 Jan. '20	K. Sutija	€128
Cybersecurity Superheroes: 4 Ideas for 2020	23 Jan. '20	P. Colville, CFA	—
Appendix: Cybersecurity Superheroes - 4 Ideas for 2020	23 Jan. '20	P. Colville, CFA	—
CIO Series: Large Manufacturer Committing to Azure	22 Jan. '20	A. Shepherd	—
Regulating Big Tech: Nothing Doing	22 Jan. '20	R. Kramer	—
Software 2020 Outlook: Live, Die, Repeat	17 Jan. '20	A. Shepherd	—
Appendix: Software Outlook 2020	17 Jan. '20	A. Shepherd	—
CES 2020: Key Takeaways	16 Jan. '20	N. Kim	—
EU Telcos: Infrastructure Inside	16 Jan. '20	A. Beale	—
Altice Europe: Transformation Continuum	15 Jan. '20	A. Beale	€11.9
Online Fashion: 2020 Trends – Moving Beyond Retail	15 Jan. '20	R. Strauss	—
Farfetch: Back In-Season	15 Jan. '20	S. Lourensz	\$14
Uber and Lyft: Bedtime Stories	10 Jan. '20	R. Kramer	\$36/\$44
Pinduduo: Falling Between Two Stools	9 Jan. '20	M. Yang	\$30
BT Group: Fibre-to-the-Consultation	9 Jan. '20	C. Perfect	294p
2020 Vision: Top Internet Themes	9 Jan. '20	R. Kramer	—
Video Games Quarterly: 2020 Outlook – Party Time	8 Jan. '20	B. Scurlock	—
Skyworks: AVGO RF Sale	8 Jan. '20	K. Sutija	\$86
JD.com: Finally Growing Up	6 Jan. '20	M. Yang	\$46
Meituan: Emerging Empire	6 Jan. '20	M. Yang	HK\$120
Synaptics: Back to Business	6 Jan. '20	H. Barrett	\$85

Source: Arete Research.

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Share prices are as of 4 February 2020 market close, unless otherwise indicated. This report compiles comments from Arete Research's entire team of analysts. The following analysts contributed to this report:

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Other Companies Mentioned

Company	Ticker-Price	Rating
Alphabet	GOOG US-\$1,447.07	Buy
Oracle	ORCL US-\$54.04	Sell
Xiaomi	1810 HK-HK\$12.54	Sell

Source: Arete Research.

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