The Hammerstone Report
delivered 4x daily

Street Recommendations

Thursday, October 4, 18

ARGUS:

- **INTU** tgt raised to $265 - We believe Intuit is optimally positioned to benefit from and lead these trends, and also to develop isolated competencies (consumer tax planning and small business accounting) into an integrated financial services platform. * Intuit wrapped its annual presentation by reaffirming earlier guidance for fiscal 1Q19 and the full fiscal 2019 year, signaling continued strong growth
- **TSLA** - We have a positive view of the settlement, as it will allow Mr. Musk to remain as CEO and diversify the board of directors. We also expect it to stem the negative news flow that has weighed on TSLA shares. On October 2, Tesla announced 3Q18 deliveries of 83,500 vehicles, including 55,840 Model 3's, 14,470 Model S's, and 13,190 Model X's. Model 3 deliveries exceeded our estimate of 52,000 vehicles

BANK AMERICA:

- **SPWR** upgraded to neutral from underperform

BARCLAYS:

- **TLND** - High Quality Growth, Undemanding Valuation: Talend trades at a ~3x discount to high growth peers (~6x CY20E EV/Sales, vs. ~9x) despite being one strongest growth stories in our coverage. As we discussed in our recent note we like Talend's positioning to solve the Big Data integration problem in an increasingly fragmented data landscape. We reiterate our OW rating and $91 price target, based on 8x our CY20 sales estimate.

BMO CAPITAL:

- **WDAY** - We believe that WDAY has ample opportunities for HCM in new logos and richer mix for the next few years, while we remain encouraged about prospects for financials to grow largely in SMB accounts. We remain on the sidelines due to valuation
- **RPM** - Despite the 5% move down, we don't think the story for RPM has changed in any meaningful way. The price vs. raws environment was at its worst in F1Q19, and RPM should see some pricing relief. The cost-cutting moves are taking place faster than expected, and while marketing spend is a bit higher it should drive incremental volumes, while the buybacks/capital deployment outcome is better than expected. Our thesis remains intact that execution will lead to a mid 90s/100s stock out 18-24 months
- **BLL** - hosted an investor update near its Colorado headquarters. With management reiterating upfront its two primary 2019 post-Rexam acquisition targets, $2B in EBITDA, and $1B in FCF, the event was focused on medium-term targets and objectives. To our ears, the tone was more confident and less defensive than Ball's last event in December 2016. "Our once in a lifetime opportunity" was the repeated refrain.

BTIG:

- **LEN** – reiterating our Buy rating but lowering PT to $73 from $79. LEN continues to differentiate itself from the group as a structural change story by (1) taking the first steps towards an asset-lighter model by announcing agreements with three developers and issuing a target lot option percentage of 40% vs (25% now) and (2) paying down almost $600M of debt which reduced debt to cap ratio to 40% from 45% in 4Q17.
- Apartment REITs - The trend in lease turnover has been very positive for the Apartment sector with the average turnover for our coverage down 6% from 2Q16 to 2Q18. Along with slowing supply, the low turnover and homeownership rates should create a supply/demand dynamic which favors apartment owners. We expect apartment demand to be strongest in the West and Sunbelt regions where **CPT** and **ESS** have the greatest exposure
- **SRPT** - reiterate our BUY rating and $190 PT following the release of additional clinical data at the World Muscle Society Meeting in Mendoza, Argentina (which we are attending). Post our discussions with Dr. Jerry Mendell at the meeting (lead investigator for SRPT's Phase 1/2a micro-dystrophin clinical study), we believe SRPT's gene therapy remains in the leading position as a future treatment for DMD patients.

CANACCORD:

- **UPLD** - BUY, $40 PT This morning Upland announced that the firm has acquired Rant & Rave, technology that broadly falls into the customer experience management (CX) category, for $58.5M in cash at closing and a $6.5M 12-month cash hold back. We find this transaction significant
- **MRCY** - initiating coverage of Mercury Systems (MRCY) with a BUY rating and $64 price target. We believe the company is well positioned to continue its top-line, margin and FCF improvement into FY19 and beyond. MRCY is a leading provider of defense electronics that we believe is poised to benefit as budgets continue to increase, target markets see faster growth, and the DoD increasingly focuses on agility and affordability
- **ASND** - TransCon CNP data expected 4Q18, likely to be meaningful and de-risking; BUY, $81 PT Ascendis has guided to reporting data in 4Q18 from the ph.1 study of TransCon CNP in healthy volunteers -- we will be looking for PK and safety data supporting a weekly dosing profile. We continue to view the ability to dose TransCon CNP weekly as a key differentiator vs. competitor vosoritide

CANTOR:

- **SPNE** - Following our fireside chat today, we have more conviction that SPNE can consistently deliver growth in the high-single to low-double-digit range. We think that the company is finally starting to see the benefit of management's hard work over the last three years. We think 2018 top-line guidance appears conservative and see upside to 2019 consensus
- **TSRO** - Overall, we think that management remain upbeat around the Zejula launch and are taking some key measures to ensure continued growth in Zejula sales. Our thesis continues to be that expectations remain low for Tesaro, and we see many events and milestones that remain not appreciated at the current valuation. Last night, we also hosted management at our investor dinner
- **SRPT** - reiterate our Overweight rating with a 12-month price target of $217. Today, we received an update at the World Muscle Society meeting around the four patients dosed with AAVrh74.MHCK7.Micro-Dystrophin. At this meeting, biopsy information on patient four and functional data were shared. We reiterate Sarepta as a top pick in small-mid cap, and we also see many catalysts in next 12 months to drive shares higher

CITIGROUP:

- **SEAS** tgt raised to $20 from $15 - shares have rallied ~100%. In tandem, short interest has dropped from ~50% to <20%. Does the bull case have legs, or is this a short squeeze? We suspect both factors have contributed. But, remain in the bearish camp
- **CLDR/HDP** - After the market close on 10/3, CLDR and HDP announced an all-stock 'merger of equals'. Deal makes strategic sense; Critical mass should help alleviate fears - We believe the deal is strategically sound and follows a history of consolidation in this market (once ~6 competitors).
- **SNAP** tgt cut to $7 from $8 and maintain sell - We are lowering our forecasts again to reflect recent trends in user and ARPU growth, Q3 guidance and projected 2018 exit growth rate
- **EVH** - While we hold a balanced view on the acquisition, we remain positive on EVH given its favorable positioning as the only scale player in the niche VBC managed services market. We raise our PT to $32 ($25 prior) and remove the High Risk designation to our Buy rating

COWEN:

- **CF** - Reit Outperform – Raising TAR $60 to $68, and establishing street high 2020 EBITDA/EPS ($2.45B/$4.75) well above consensus ($1.89B/$2.44) that we think is anchored to prices in the recent downturn and significantly underestimating CF's mid cycle earnings power on capacity that is ~75% larger than they were in the last cycle. Importantly, the nutrient price deck that supports our street high estimates is well below a level that would entice new capacity construction that destroyed the last cycle
- Cable - Qtly survey reinforces our positive stance on cable as results indicate that cable will continue to steal telco share, meanwhile we should see a slight uptick in otherwise steady OTT migration. Our favorite idea remains **CHTR**, and into the print prefer **ATUS** as we expect a strong qtr. vs expectations.
- **KSS** - Reit Outperform – Recent mgmt meetings increased our conviction that KSS can beat in 4Q and deliver long-term profitable growth driven by improved product and inventory management, sales capture from competitor store closures, and advanced personalization through better data. For 4Q we're raising our comp estimate to +1% from +0.1%, which is ahead of the Street's +0.1%. We expect KSS to be a major beneficiary from the Bon-Ton liquidation and our analysis indicates ~190 BONT stores are within 10 miles of a KSS store
- **SRPT**- Reiterate Outperform - At WMS SRPT presented very strong functional data from its ongoing Ph1/2 DMD microdystrophin gene tx trial. Patient 4 expressed super-responder levels of dystrophin while patient functional measures (eg Northstar) showed consistent improvement vs baseline. All key biomarkers were concordantly strong and safety continued to be clean. Together this bodes very well for the program s approvability
- **HDP**- Reit Market Perform - Raising TAR $20 to $30. HDP announced it will be merging with competitor Cloudera (CLDR not covered). We think it's a good move as it alleviates pricing pressures instills greater margin leverage and introduces some complementary products to cross-sell. New risks likely emerge around integration & customer disruption but we think the deal unlocks near-term value for shareholders
- **OLED**- Reit Outperform - Lowering TAR $175 to $200. We are adjusting our industry model for faster AMOLED TV growth with LG Display converting LCD lines and adding capacity plus Samsung developing QD-OLED (MP likely in 2020/21). Smartphone penetration is slowed by Samsung share losses and iPhone pricing. We see OLED lighting emerging as an incremental growth driver. We raise LG Display 2018-19E sales; trim OLED 2019-22E

DEUTSCHE BANK:

- Semiconductors - Trimming ests as cyclical concerns rising Over the past few months, cyclical fears have risen across the semiconductor sector as macro uncertainties (tariffs, falling PMIs, etc.) have combined with a growing list of "slowing" data points across the supply chain (semi customers & co's in Industrial/Automotive mkts). While y/y growth slowing in broad-based markets such as Industrial and Automotive is nothing new, the pace of that slowing and the potential for a less than "smooth landing" is a rising concern for investors
- **BLL** – Raise tgt to $51 from $47 and maintain buy - We continue to like the prospects for Ball and the can industry relative to other substrates in the coming years. Moreover, we believe Ball is a good defensive name to own that will have the ability to grow earnings even if a tougher economic backdrop were to come. In this report, we are raising our price target to $51 on forward looking relative valuation as we believe investors will begin to have more conviction on earnings growth in 2019 and 2020.
- **AKAM** tgt cut to $73 from $80 - modeling September Quarter: $657.9M / 82c versus consensus: $664M / 83c, and December Quarter: $699.9M / 90c versus $704M / 90c. We are in line on EPS and modestly below on Top Line for the Q3 Print and Q4 Guide versus current consensus expectations

EVERCORE:

- **SNAP** maintained underperform and lower tgt to $7 from $9
- **IAC** maintained outperform and raise tgt to $249 from $210

GOLDMAN SACHS:

- **AMCX** downgraded to sell from neutral and cut tgt to $61 from $64 citing declining ratings for AMC Networks' "The Walking Dead"

GUGGENHEIM:

- MLPs - We think the fundamentals continue to line up well for downstream NGL players such as **EPD, OKE** and **TRGP** (all BUY rated) to exceed expectations for 3Q and FY18. Production volumes, frac spreads and storage/export margins all are looking better than expected (for a typically seasonally weak quarter) and thus we are raising our estimates for EPD, OKE and TRGP and our price targets for EPD and TRGP

JEFFERIES:

- **NSA** upgraded to buy from hold as believes the recent weakness in the shares is overdone and presents a buying opportunity.
- **PGTI** init buy and $27 tgt saying company's focus on specialty windows and doors makes it fairly insulated from broad housing trends
- **MTCH** tgt raised to $70 from $55 - Raise numbers and target. Tinder currently has just 3.8M subs, despite 50M MAUs, and we think this could grow to 6M by 2020, translating to $1.5B in revenue. We raise our '19E revenue estimate for MTCH slightly to $2.03B, but this this could be conservative. In addition, we highlight that MTCH remains one of the most profitable companies in our internet coverage with 30+% GAAP OMs
- **MLM** - We revise our estimates lower for **MLM, VMC, EXP** and SUM to reflect the record Sep rainfall in TX (Dallas had 12" of rain in Sep) and Hurricane Florence. We don't believe that demand is lost and rather likely deferred into 4Q/2019. We point out that we have seen a noticeable inflection in aggregate and cement shipments in TX/NC this year. MLM is the most likely to be negatively impacted given geographic exposure and that could put the FY guide at risk

JMP SECURITIES:

- **AYI** - buying opportunity – reiterating Outperform - a deeper look at the numbers following Acuity Brand's F4Q18 conference call leaves us slightly more conservative on the company's gross margin outlook, but still happy with our Market Outperform recommendation and $170 price target. Prior to yesterday the stock was beginning to get close to our target – now, with a $20 selloff, we think investors have an opportunity to invest again at an attractive valuation
- **MNLO** - will report Phase 2 cough data in October and Phase 2 psoriasis data in 3-4 months; reiterate our Market Outperform rating and $22 price target. Chronic cough may share mechanistic similarities with prurigo nodularis and since the Phase 2 PN results were statistically significant, we forecast a 50% chance for a successful Phase 2

KEYBANC:

- Restaurants initiated:
- **CMG** init Overweight and $500 price target as sees easy sales wins, latent pricing power, and profit & loss efficiencies driving EPS upside for Chipotle
- **MCD** init Overweight rating and $185 tgt as believes McDonald's high single-digit EPS growth should drive accelerating free cash flow generation, post-remodel cycle
- **QSR** init Overweight and $68 tgt as believes Restaurant Brands' high single-digit top-line growth and long-term mid-teens total return is unmatched
- **SBUX** init Overweight and $65 tgt as sees outperformance from Starbucks based on low near-term expectations and actionable sales initiatives
- **BOJA** init Sector Weight rating, saying the stock trades close to fair value
- **DNKN** init Sector Weight rating, citing the stock's valuation
- **WEN** init Sector Weight as suggests waiting for signs of accelerating system-wide sales growth, which he believes would narrow its valuation gap to Wendy's peers
- **YUM** init Sector Weight rating saying 2018 is shaping up to be a noisy year, and believes the company is fairly valued
- **BIDU** - We continue to see enhanced monetization through ramps of dynamic ads, OCPC, and Moonrise and view recently introduced video ads for news feed as potentially positive tailwinds in the near to mid-term given improved CTR and ROI based initial results. Meanwhile, we are lowering estimates to reflect completion of non-core businesses in 3Q and higher content spending at iQIYI, while our forecast for the core remains unchanged. Remain OW with a $297 PT
- **FEYE -** We continue to believe the Company is making strides with its revamped product portfolio and more-integrated Helix offering. In addition, checks with key contacts and federal procurement websites suggest that 3Q was a solid federal quarter for the Company. While our long-term thesis remains Sector Weight, we like the set up for 3Q and believe the Company will deliver solid billings and revenue results

MIZUHO:

- **MNK** - INOmax Still Safe; Reiterate Neutral and $30 PT. FDA approval of a potential INOmax competitor reads negatively at first (as INOmax represents 21% of 2018 sales), but after speaking with mgmt. we understood that actual competitive pressure to the brand is still delayed, and likely over-stated in our model. Reiterate Neutral.
- **DPLO** - We came away from the meetings incrementally more positive regarding the company's ability to compete and grow in a market that is vertically integrating. Further, we were impressed by new CEO Brian Griffin and think his industry experience should allow DPLO to accelerate earnings growth overtime. In the near-term however, we remain Neutral-rated given DPLO's model is leveraged to potential changes in brand drug pricing inflation.

- **PEG -** update our 2018-2021 EPS estimates to reflect a commodity update for third quarter 2018, in addition to the incremental spending associated with the Clean Energy Future Program. We maintain our Neutral rating and increase our PT to $53.00.
- **VTR** stock is down over 12% YTD, or 900bps-1,000bps below its large cap peers. We see this as a curious disconnect with no single explanation that we can see. As such, we peel back the onion to debate what may be behind it. The bottom line is there is no "silver bullet", but rather a series of small factors we have identified that may help explain the stock action.

MORGAN STANLEY:

- **WMT** - makes the case that Walmart has strong odds of rising more than 3% after its October 16 investor day, which is one of the most anticipated events for retail investors this year. Base case scenario is the company setting 2020 targets of 5% EPS growth driven by ~2% EBIT growth and share buybacks representing the balance.
- **TEAM** Downgrading to EW - TEAM remains a unique software asset – combining durable 30%+ growth, improving profitability and strong execution, but after a ~100% YTD move, near-term upside looks limited. Increased confidence in the durability of growth supports a new $94 PT, but leaves a balanced risk/reward
- **EQM** - Court order vacating WV Army Corps permit on MVP is a negative but EQM story remains attractive on MVP EBITDA 2020 onwards, pending structural clarity, & potential buy-in premium. LT value still attractive

NOMURA:

- **CLDR** upgraded to buy with $23 tgt - Given the material improvement that the combined entity offers, we are upgrading CLDR to Buy (from Reduce) and increasing our target price to $23, which increases our HDP target price to $30 based on the terms of the deal. To say we were surprised at CLDR and HDP announcing a merger of equals yesterday would be an understatement given the extreme competitive dynamic between the two companies for the past 10 years. However, we see the deal as highly accretive from an operating leverage perspective
- **VZ -** We expect Verizon to report above-consensus postpaid phone net adds while its record low churn may rise a few bps YoY due to pressure from T-Mobile. We revise our EBITDA forecast to reflect guidance on wireline margins but still remain above consensus. We view the fixed wireless launch as more focused on learnings than a near-term threat to cable providers

OPPENHEIMER:

- **ENS** - On margins, we are somewhat cautious vs. consensus for F3Q18 given expected cadence of tariff and lead price impacts, but we are incrementally bullish on sales/margin trajectory into FY20 and accordingly raise our FY20 estimates. With an active M&A pipeline offering potential catalysts, and our view to multi-year growth tailwinds in reserve, we raise our price target to $95 (from $86).
- **CSL** - We remain on the sidelines ahead of CSL's 3Q18 release after updating segment analysis and revising our '18-'19E modeling. While confident in near-term core CCM margin strength (likely swing to favorable 3Q price/cost), we anticipate sequentially lower volumes (partly influenced by weather), "noise" from one-time expenses, and remain cautious on prospects for sustained rational competition.

PIPER JAFFRAY:

- **CMI** upgraded to Overweight from Neutral and raise tgt to $188 from $143 - We think consensus already captures a coming peak in Class 8 truck demand, but fails to reflect margin expansion due to a mix-shift toward off-highway products. The fading impact of warranty charges are also a tailwind.
- **PVH** - Reiterate OW on PVH post travels with mgmt. Despite external "noise"--PVH continues to execute their plan. We believe in Q3, sales trends have continued from Q2. Mgmt intends to outperform their guidance and sees 2H as prudent (particularly in Q4). Margins should expand by 200 bps over time with CK being the most important driver

- BOKF - Following a recent pullback and high conviction on strong fundamentals for BOKF in 2H18, we are reiterating our OW rating and $114 PT. Not only is it likely loan growth will be solid in 3Q18 (likely resulting in guidance being raised to low double-digit for the year), but we believe the NIM will be better than consensus expectations
- Managed care - Yesterday CMS released the 2019 plan crosswalk allowing us to analyze Medicare bid strategy. We view **UNH** and **HUM** as best positioned to capture a greater share of the growing MA market, given strong trend benders, and best-in-class marketing. We believe the market continues to undervalue MA growth and penetration

RAYMOND JAMES:

- **IBTX** upgraded to strong buy from OP
- **PFBC** upgraded to strong buy from OP

RBC CAPITAL:

- **ATU** - adjusting estimates; we see signs that ongoing initiatives and portfolio moves are starting to gain traction for a company with margin runway relative to recent peaks. However, with shares at ~24x our FY19E EPS and potential for tariffs/costs to weigh, we maintain our Sector Perform rating.
- **VAR** - PT to $115 from $120; we are lowering our FY19 EPS (now $0.22 below consensus) and PT to $115 (from $120), as we estimate the company could be facing ~$0.42+ of FY19 EPS headwinds from tariffs/Fx. However, we believe that VAR shares at least partially discount these headwinds as shares are down ~5% since the Trump administration released its first tariff list

SEAPORT GLOBAL:

- **WBT & MIDD** - We caught up with management from WBT and MIDD regarding macro trends and company specific items. Overall, both management teams are upbeat about the next 12 months for restaurant capex spending and are optimistic that the general market will recover through 2019. Our analysis of the top 22 QSRs (~30% of the US QSR stores) supports our view for a 2018-2019 recovery in restaurant capital spending for kitchen equipment

UBS:

- **ENB** init buy - While ENB's story today is very different vs Jan 1, ENB has underperformed US peers and traded roughly in-line with large cap Canadian peer whose path to deleveraging is not as robust
- **TRP** init neutral - Despite its size, TRP enjoys a strong growth capex backlog (23% of EV above a peer group average of 14%) that supports EBITDA growth partially offset by equity dilution. TRP's current leverage is ~5.5x and path to lower leverage of 5.0x in 4Q19 requires ~$3bn of equity/equity like funding (preferred or asset sales) which will act as a modest near-term overhang
- **HPQ -** Analyst Day Confirms Our Views on Printing and the Stock; Buy and Raise PT to $30 - We like what we heard from management, and are raising our PT to $30. The guidance confirms our view in our recent deep dive, Better PCs, More Printers, and Eventually 3D Printing; Reiterate Buy

WEDBUSH:

- **JACK -** With long-term EBITDA and FCF guidance as an anchor, we view incremental visibility into short- and medium-term SSS growth drivers to result in an upward revaluation of shares. Our FQ4 checks indicate SSS growth trending in the range of 0.5-1.0%, below guidance of 1-2% and consensus of 1.4%, but above what we believe are some buy-side fears of below 0.5%. We lower our system SSS growth estimate to 0.7% from 1%, and maintain our already below-consensus FQ4 EPS estimate of $0.78. We attribute the shortfall both to a lack of sufficient traction in the Jack's Bowls LTO and to a lack of compelling value options in the quarter.

- **CVNA** - This online-focused used car retailer is at the forefront of meeting changing demands of car buyers in the massive used car industry. CVNA's technology-driven, customer-centric, vertically-integrated business model is highly scalable, positioning the company for rapid growth. With significant competitive advantages, execution will be the largest key to success. While we have a high degree of confidence in CVNA's ability to succeed, we see shares near fair value and prefer to wait for a better entry point.
- **HOG** - Despite exceedingly low retail expectations, our most recent round of dealer checks suggest Harley-Davidson is again at risk of missing them. And while this is unlikely to derail the 3Q shipment guide or consensus EPS, the full-year guide and Street consensus are again in jeopardy, which is becoming a common refrain at this time of year. As such, we are lowering our price target to $40 from $42. On average, our U.S. Harley-Davidson dealer contacts saw ~9-10% decline in retail unit registrations during 3Q18. We are lowering our 3Q retail assumption from down 6.5% to down 9.5% and our full-year assumption from -4.5% to -6%.
- **ATVI** - Mike Morhaime, President of Activision's Blizzard division, will step down effective immediately. Mr. Morhaime was an effective leader at Blizzard, and we think that his departure is a significant loss.

WELLS FARGO:

- **SLRC** downgraded to market perform from outperform and cut tgt to $19.25 from $22
- **FSIC** downgraded to market perform from OP and cut tgt to $7
- **FLXN** - While OP-rated FLXN shares have underperformed recently, our conversations with management indicate things are on track and progressing well. Overall, we think FLXN is undervalued and believe when it gets the J-code implemented on January 1, 2019, it will mark the true start of Zilretta's growth
- **PGTI** init with an OP rating and $25 PT; we believe PGTI's strong fundamental performance and outlook through 2019, coupled with its recent pullback/below-historical average valuation, provide an attractive oppty for building products investors. It appears the Street has followed mgmt's 2018 guidance, which we view as light, potentially providing an attractive beat-and-raise scenario in the back half of the year
- **HDP** - Reiterate OP and $32.50 PT on HDP following its announcement of a definitive merger agreement with **CLDR**, under which HDP shareholders will receive ~40% ownership of the combined entity. With capabilities across hybrid, public, and private clouds from the edge to AI, the proposed merger creates a vendor in a unique position, in our view, to assist enterprises in creating modern data architectures, leveraging complementary components of each co's product portfolio

Rating abbreviations…

***OP = Outperform

***SP = Sector Perform

***UP = Underperform

***OW = Overweight

***EW = Equal-weight

***UW = Underweight