EVALUATE NEWSLETTER

August 2018

Welcome to Evaluate Research's Newsletter for August 2018!

This newsletter talks about our New Coverage on HK-listed Agritrade Resources; our reports now being available on S&P Capital IQ; new Regulation MiFID II's severe reduction in small-midcap stock research coverage, and how Evaluate Research can help…..

New Coverage : HK-listed Agritrade Resources [1131_HK]

We have recently initiated coverage on Agritrade Resources Ltd., a Hong Kong listed, US$1.3 bn market cap company with coal mining operations in Indonesia. Agritrade has a strong track record of growth, and with 35+ years of proven coal reserves life, the company has strong customer relationships with established large entities in China [24% of sales], India [22% of sales], in addition to a strong presence with nearly 50% of revenues in its home Indonesian market. With the recent acquisition of a biodiesel plant in the US, the company has also established its presence in the rapidly growing renewable energy market. **We have had several interactions with their senior management before publishing our Initiation Report, a detailed 33-page analysis of the company's growth opportunities, catalysts, risks, competitive positioning, etc. with complete 3-year forecasts of their financial statements and a specific price target.**

Evaluate : Now on S&P Global Market Intelligence Platform, Capital IQ

Our company's page and all our reports are now available on S&P Global Market Intelligence platform, Capital IQ, which is a trusted source and the leading provider of vital investment information on global public companies. This is in addition to our existing distribution on platforms like Bloomberg, Thomson Reuters, FactSet, SmartKarma, Harvest Exchange etc. along with our website www.evaluateresearch.com. Our reports can be freely viewed by all investors without any restricted access on all these platforms.

Post -MiFID II Impact on Investment Research

Historically, the buy-side money management firms linked the amount paid for research to the volume or value of brokerage transactions. **Under the new MiFID II regulations, which came into effect in Jan 2018**, this can no longer be done and instead the buy-side firms must agree a budget to be paid for research upfront and pay an amount that correlates to the quality and value that it would provide to the end investor. Introduced in the U.K., MiFID's impact is being felt globally on both the buy-side and sell-side.

The majority of funds are now paying for research from their own P&L, with some of the largest players setting the tone for the industry. Recently, Deutsche Asset Management and Franklin Templeton announced that they will absorb research costs, rather than pass the "burden" on to clients. While this trend has the potential to compress profit margins, funds are responding by spending less, cutting research budgets from approximately 6-12% of AUM to around 1-3%. **Research spend which had already declined by 20-25% from 2012-15, is expected to have a further 40% or greater reduction in the global wallet by 2020, as per a Bloomberg report.**

Effect on the Sell-side Research Providers:

The reduction in spend will drive rationalization in the investment research industry, which is opaque and inefficient. With uncontrollable allocated costs, many brokerages will struggle to transition their research businesses into profit centers—opening the door for independent research providers [IRPs] that can provide higher-value research at more competitive prices.

IRPs set to grab market share:

According to a Bloomberg report from April 2018, many top performing research analysts are already leaving large brokerages to join or set up independent research firms [IRPs]. By combining unconflicted opinions and specific content based on deep expertise and competitive costs, IRPs are set to take up much of the wallet being left behind by Tier-2 frontline research providers [eg: CLSA, Barclays] being pushed out of the market.

Most brokers now have a set cost for their research which fund managers must pay. However, according to a May 2018 article from City A.M., **others having coverage on smaller companies, are getting around this by charging the company for the research which they will then distribute to fund managers at no cost to the fund house.**

According to a new survey from broker Peel Hunt which offers its services to small & mid-cap companies, this strategy is willingly used by many public companies in the hope that research on their company will fall across investors' desks.

According to a PwC report, 'The impact of MiFID II on research', a potential unintended side-effect on the industry could be the reduction of good quality research on smaller and mid-tier stocks. This could be both because mid-tier sell side firms stop producing research but also because the buy-side, who now need to demonstrate value for research being paid for, are less prepared to explicitly make payments for the analysis. This in turn may reduce the liquidity of these markets. As per the report, this could provide opportunity for independent research firms to fill in the gaps where sell side firms are not able to deliver on either quality or price. Due to the exclusivity of their materials or services, these firms are likely to increase their market share.

How Evaluate Research Can Help

We, at Evaluate Research, believe that our research even though paid for by the corporate, which is high quality, objective and consistent with a wide distribution reach, will certainly add a lot of value, attract greater investor attention and increase liquidity much needed by public companies.