KeyValue

ASSET MANAGEMENT

MACRO RESEARCH

WEEK'S NEWS ANALYSIS

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Some suppliers in the consumer goods sector are actively adopting strategies aimed at establishing more direct relationships with their customers. However, this approach requires specific expertise in the logistics activities typical of the retail sector. Apparel companies like Levi Strauss, Skechers and Canada Goose are making a transition away from wholesale sales, as reported by Liz Young of WSJ Logistics Report. This strategy aims to drive faster growth and redefine business models, but it is essential to ensure effective logistics management. This management includes tasks such as selecting, packing, and shipping individual items through warehouses, as well as developing crucial shipping and return plans for retail sales. Ohio State Professor Terry Esper points out that this strategy took hold during the pandemic, when suppliers had to adapt to the need to package and deliver orders efficiently. New trends in online commerce, such as sales via social networks, offer further opportunities, as they can attract a larger audience.

Levi Strauss adopted a direct-to-consumer strategy, considering the benefits to outweigh the associated risks. Chief Financial and Growth Officer Harmit Singh says the goal is to accelerate the distribution of new products by leveraging insights into consumer purchasing trends gained through direct sales channels. It is expected that by 2027, more than 55% of the company's revenue will be generated through the direct-to-consumer channel. This approach requires a thoughtful assessment of risks, considering the capital investments needed for stores, but also the potential higher profit margins and more direct connections with consumers.

However, it is important to mention the recent evolution in Nike's supply chain. The company is reviewing part of the strategy it adopted during the pandemic, when it severed relationships with some retail partners and tried to sell directly to consumers. According to WSJ sources, Nike is now returning to a wholesale supply model and is working with some stores to dispose of excess merchandise in their warehouses. As warehousing and shipping costs shifted from wholesalers to Nike, the company's liabilities increased, highlighting the risks associated with the direct-to-consumer approach.

Northern Virginia is the largest data center market in the world, serving the likes of Amazon and Google. The region has approximately 250 data centers amounting to approximately 4,000 MW of capacity (a number large enough to power approximately 1 million homes). The race for artificial intelligence is driving the growth of this market with the planned construction of new data centers that will add more than 7,000 MW to the 4,000 already existing in Northern Virginia. However there is a big problem looming over the development of this market: generating and being able to transmit enough power consistently, to the right places, says Marc Ganzi, CEO of DIGITALBRIDGE.

Most data centers in the Northern Virginia region are built to handle cloud computing but now, demand has shifted to data centers that support AI computing. The latter requires servers powered by graphic processing units that produce about 10 times more heat than the central processing units used by cloud servers. The big difference, therefore, between a cloud data center and an AI data center lies in the cooling system which, if those dedicated to the cloud consist of air cooling only, in those dedicated to AI they work with air and liquid cooling .

According to Jon Lin, general manager of data center services at Equinix, one of the largest data center operators in the world, it takes a year and a half to two years to build a large data center. The rush to build them has increased the time it takes to acquire some critical components: The transmitters, which connect different server networks, now take months longer to ship than in the past.

Labor costs have risen due to a shortage of trained construction workers for these types of sensitive installations. The cooling systems would take 6 to 8 months to be delivered. The AI chips needed to make the technology work are in short supply. The largest manufacturer, Nvidia, was overwhelmed by demand; At the beginning of the AI boom, the time it took to obtain graphics processing units rose to several months, although it has decreased in recent months. And yet, the time it takes to get large emergency power generators has gone from less than a year to nearly two years, data center executives say.

Specific requirements for new AI data centers are pushing developers to look for places where they can get plenty of affordable electricity. Amazon recently purchased a data center near a nuclear power plant in Pennsylvania. Meta Platforms is planning $800 million of cyber infrastructure in El Paso, Texas. Digital infrastructure company Standard Power is planning to power data centers in Ohio and Pennsylvania with modular nuclear reactors similar to those used to power some submarines and aircraft carriers. NuScale Power, based in Portland, Oregon, says it has received approval to supply the reactors to Standard Power. Armada, a San Francisco startup, builds data centers inside shipping containers. The company can place these portable facilities, equipped with servers powered by Nvidia chips, near cheap sources of energy such as gas wells.

LOBITO CORRIDOR PROJECT

A US-backed railway linking Angola to the Democratic Republic of Congo is part of a counteroffensive against China's Belt and Road initiative in Africa. The $1.7 billion Lobito Corridor project aims to secure vital mineral supply chains. Efforts to rehabilitate the Benguela Railway, part of a rail line connecting Angola's Lobito seaport to the heart of the copper basin in the Democratic Republic of Congo will be aimed at refurbishing the entire line and its stations, add more of 1500 wagons and train railway staff. The line is crucial for transporting minerals essential for electronic goods, including batteries for electric vehicles.

For years, China has overseen the development of infrastructure in Africa, investing hundreds of billions of dollars in projects such as railways, roads and ports. Among them, in 2006, a group of Chinese companies struck a $2 billion deal with Angola for the reconstruction of the Benguela railway but low-value construction led to malfunctions and safety problems including frequent train derailments. The problems led to the need to rebuild the entire railway but this time, Angola rejected the Chinese government's proposal to renovate the line in favor of the collaboration, with a 30-year agreement, of some European companies that the American government will probably finance with a loan of 250 million dollars.

The project, in addition to bringing economic benefits to the Angolan region by creating new job opportunities, will allow the countries involved a better supply of crucial raw materials for the advancement of clean energy initiatives, such as nickel and cobalt. The demand for these raw materials is expected to increase 20 times in the period 2020-2040 and this has contributed to growing interest in the Lobito Corridor and the Democratic Republic of Congo.

China lent more than $160 billion to the African government from 2000 to 2022 but recently, monitoring its debt exposure to Africa and investments that have not had the expected return, financing has collapsed to less than $1 billion dollars in 2022.

In conclusion, thanks to the new agreement, a great opportunity awaits the U.S. to gain influence in Africa at the expense of China. What is certain is that the investment of the U.S. it is still minimal when compared to how much China has invested in the last 20 years but it could be the beginning of a reverse trend.

Overview of the week's most intriguing stocks: **Microsoft**

Talking about the company performance outline, Microsoft's recent financial report demonstrates impressive growth fueled by the increasing demand for its software and cloud services, particularly driven by artificial intelligence (AI) integration. MSFT reported an 1.82% increase.

Revenue surged by 17% year-on-year to $61.9 billion, surpassing analyst expectations. Net income saw a notable 20% increase to $21.9 billion. Diluted earnings per share of $2.94, also exceeding the estimated $2.92 per share.

Moving on to incorporation of AI and partnerships, Microsoft's strategic collaboration with OpenAI, the creator of ChatGPT, has significantly contributed to its AI capabilities. AI integration, including products like Copilot, has enhanced various offerings such as Microsoft 365, leading to increased customer satisfaction and demand.
Azure cloud services witnessed a substantial 31% growth, with AI services accounting for a notable portion of this expansion.

Relevant are also the infrastructure investments: to accommodate the rising demand for AI and cloud services, Microsoft has allocated significant resources to expand its infrastructure, with capital expenditures reaching $14 billion in the last quarter.
Microsoft anticipates further revenue growth, projecting revenues between $63.5 billion and $64.5 billion for the upcoming quarter, reflecting confidence in sustained performance.

Microsoft's success in the AI sector has propelled its market value above $3 trillion, surpassing Apple and becoming the world's largest company by market capitalization.
The company's stock has exhibited robust performance, climbing 45% over the past 12 months, outpacing the Nasdaq Composite Index and Apple shares. Microsoft not only leads technologically in the new frontier of AI but also stands as the most advanced in generating shareholder value from related services.

Overview of the week's most intriguing stocks: **Intel**

Despite a 9% revenue increase due to PC market recovery, Intel reported a quarterly loss and provided a disappointing outlook, resulting in a 9% decline in after-hours trading.
The losses occur amidst a multi-year turnaround effort led by CEO Pat Gelsinger, who aims to revitalize the company's competitiveness by welcoming outside chip designers and pursuing leadership in advanced chip manufacturing.
Intel Foundry, the chip-manufacturing operations, gained a sixth customer in the defense and aerospace sector, signaling progress towards becoming the world's second-largest contract chip-maker by 2030.

Operating losses for the chip manufacturing division amounted to nearly $2.5 billion in the first quarter, with 2024 projected as the low point, leading to investor concerns and a 30% decline in the company's shares for the year.

Intel's data center business faced challenges due to competition in artificial intelligence chips, with revenue in the first quarter rising by 5% to $3 billion amidst increasing demand for AI-focused solutions.

CEO Gelsinger highlighted advancements in Intel's AI chips, expecting $500 million in revenue from these chips in the second half of the year, with the latest version, Gaudi 3, recently launched.

Intel reported a loss of $381 million, a significant improvement compared to the $2.76 billion loss in the year-ago period, indicating progress in the turnaround efforts.

Snapchat's parent company, Snap, announced a remarkable 21% year-over-year revenue surge in the first quarter, surpassing both market expectations and its own projections, which were initially in the low-to-mid teens. This performance triggered a surge of more than 20% in Snap's shares during after-hours trading, following a year-to-date decline of 33%.
The revenue growth, attributed to enhancements in its advertising platform and heightened demand, propelled sales to $1.2 billion for the quarter. Snap, primarily reliant on ad sales, faced a setback in its advertising business post-2021 due to Apple's privacy policy changes, initially experiencing a decline in sales. However, subsequent quarters witnessed positive revenue growth, a trend expected to persist. Snap anticipates revenue growth between 15% and 18% for the current quarter, surpassing analyst forecasts.

Snap's Spotlight, a TikTok competitor, witnessed a notable surge of over 125% in total content viewing time year-over-year. This surge coincides with recent legislation potentially impacting TikTok's operation in the U.S., positioning Snapchat as a potential beneficiary.

Furthermore, Snap's subscription service, Snapchat+, saw a substantial increase to 9 million subscribers in the quarter, compared to 3 million a year ago. Despite these achievements, the company's year-over-year loss narrowed by 7% in the first quarter to $305.1 million.

Anglo American, one of the world's biggest mining companies, listed in London, has rebuffed a $39 billion takeover offer from rival BHP, citing that the bid "significantly undervalues" the company. The proposal, disclosed earlier this month, was deemed unattractive due to its uncertain and complex structure.

Chairman Stuart Chambers emphasized Anglo's favorable asset portfolio, particularly in copper, poised for growth amidst energy transition trends. Chambers criticized BHP's bid as opportunistic and dilutive for shareholders.

BHP's all-share offer, valuing Anglo American at approximately $38.8 billion, required Anglo to spin off shareholdings in two South African-listed units. Despite representing a 31% premium (excluding the South African units), analysts anticipate BHP to return with an improved offer before the May 22 deadline.

A potential tie-up between BHP and Anglo American, being the largest mining deal on record, highlights the growing significance of copper, vital for clean-energy products, amid global decarbonization efforts.

Copper, constituting 30% of Anglo American's output, aligns with BHP's majority stake in Chile's Escondida, the world's largest copper mine. BHP's strategic acquisitions, including Oz Minerals in 2023, demonstrate its focus on copper assets.

Rising copper prices, up 15% this year, reflect increased demand driven by decarbonization initiatives, with electric vehicles and wind farms relying heavily on copper.

Amidst ongoing asset reviews, Anglo American is reportedly considering divesting its De Beers diamond unit, valued at over $7 billion. Activist firm Elliott Investment Management, holding a stake in Anglo American, may influence decisions, though its intentions remain undisclosed.

Despite Anglo's stock trading above BHP's offer value, indicating market anticipation for a higher bid, the outcome hinges on BHP's response and potential rival bids.

AngloAmerican

Alphabet has distributed its first dividends

On Friday, April 26th, Alphabet Inc.'s market value closed above the $2 trillion threshold for the first time. This surge was driven by better-than-expected financial results and a favorable response to its new capital allocation plan, which includes a quarterly dividend of 20 cents per share and a $70 billion stock repurchase program.

Alphabet, the parent company of Google, reported robust financial results for the first quarter, with quarterly profit surging by over half and revenue increasing by 15% year-over-year to $80.5 billion. The company's shares soared following the announcement of its first cash dividend, marking a significant milestone amidst scrutiny over its investments in artificial intelligence (AI).

The substantial profit increase, reaching $23.7 billion, was complemented by a 13% rise in ad sales to $61.7 billion and a nearly 29% growth in Google's cloud division sales to $9.6 billion.

Alphabet highlighted effective cost controls, contributing to improved profit margins, and recorded $12 billion in capital expenditures during the quarter, a 91% increase from the same period last year. The company's commitment to ongoing capital spending was underscored by Chief Financial Officer Ruth Porat.

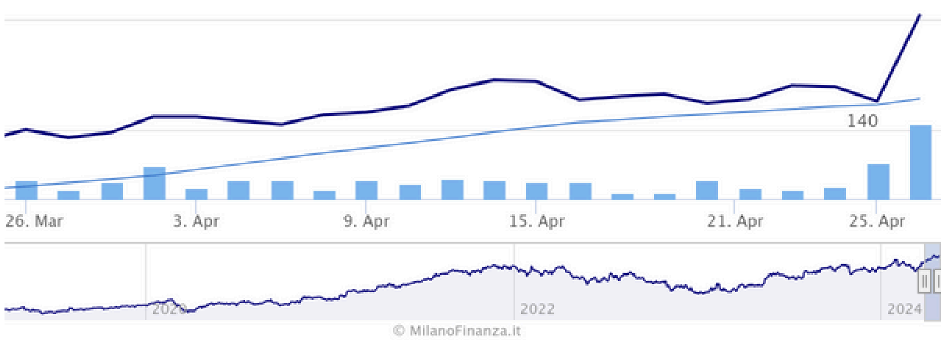
Despite significant investments in AI programs, including ongoing cost cuts and restructuring efforts, Alphabet's profitability has been resilient. CEO Sundar Pichai emphasized an increase in search usage driven by new AI tools but provided limited metrics on the technology's financial impact.

Alphabet's positioning in the AI race against competitors like Microsoft and OpenAI has intensified over the past 18 months, with efforts to leverage AI-driven features to enhance business offerings. While challenges such as botched rollouts and competitive pressures persist, Alphabet's shares have demonstrated resilience and outpaced market indices.

Google's core business, particularly ad sales, experienced notable growth fueled by increased spending from companies like Temu and other Chinese e-commerce entities. Additionally, YouTube's advertising revenue surged by 21%, reaching $8.1 billion, with a growing emphasis on the platform's subscription business.

Looking ahead, Alphabet plans to continue quarterly cash dividends, subject to board approval, while maintaining its commitment to stock buybacks, signaling confidence in its financial position and future prospects.

Alphabet



CVC capital Partners debut

CVC Capital Partners experienced a significant surge in its shares on its inaugural trading day on Amsterdam's stock exchange. The stock debuted at €17.34, marking a 24% increase from its initial offering price of €14. Notably, the buyout firm disclosed that its IPO price was set at the midpoint of its guided range of €13 to €15, resulting in a market capitalization of €14 billion.

Chief Executive Rob Lucas remarked on the robust demand, which allowed for a substantial increase in the offer size by over €400 million to €2.0 billion, thereby enhancing market liquidity. Furthermore, CVC aimed to raise €250 million in fresh capital through the issuance of 17.8 million new shares.

The Wall Street Journal reported on April 14th that CVC was gearing up to launch its IPO, marking its second attempt to go public in under six months. The firm withdrew its previous IPO attempt in November due to market jitters exacerbated by geopolitical tensions. However, improved market conditions, supported by rallying stock markets, facilitated a resurgence in new listings, including those of social-media firm Reddit and Swiss skin-care specialist Galderma, both in Europe and the U.S.

Meanwhile, Puig Brands, the owner of Jean Paul Gaultier, announced plans to float on Madrid and other Spanish stock exchanges on May 3rd, with a valuation target of up to €13.9 billion. Puig Brands, headquartered in Barcelona, also owns renowned fashion houses such as Carolina Herrera, Paco Rabanne, and Nina Ricci.

CVC oversees a vast investment portfolio totaling about €186 billion across various sectors, including private equity, credit, and infrastructure. In 2023, the company reported revenue of €1.09 billion and adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) of €650 million, with 1,154 employees as of December 31st.

For the current year, CVC plans to distribute €225 million in dividends, payable twice annually.

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