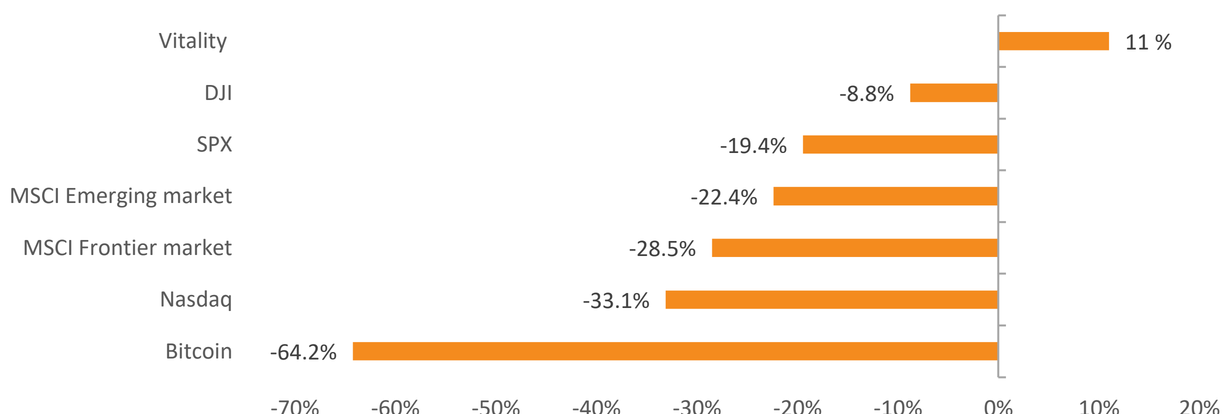
ANNUAL STRATEGY
2023

VITALITY CAPITAL LLC

2022 IN NUMBERS

- **(19%)** - S&P 500 return for 2022
- **11%** - Gross return of Vitality for 2022
- **38%** - 4-year CAGR of Vitality Capital since its inception
- **64%** - Drop in Bitcoin value in 2022
- **4** – Number of times S&P has fallen by over 19% within a year in the last 50 years
- **85** – Number of days NASDAQ took to hit bear market in 2008 and 2022
- **100**- Companies in the S&P 500 lost more than 35% of their market cap last year
- **$140** - Oil price hit high in the calendar year, marking the first time it touched these levels since 2008
- **250** – Companies under active coverage
- **5,282** – points, Nasdaq lost in a single year – marking the largest drop in the index ever
- **10,088** – 52wk low of Nasdaq in 2022, last seen in Jun 2020
- **$890bn** – drop in Tesla's market capitalization in 2022
- **$2.9tn** – Peak market cap of Apple, making it larger than the GDP of all but 4 countries in the world
- **$25tn** – Total Market cap wiped out across global equity markets

Returns



FUND MANAGER'S NOTE

Vitality Capital generated a gross return of 11% in 2022 compared to a -19% return of the S&P 500 during the same period, taking our aggregate return since inception (Feb 2019) to 268%. We navigated 2022 with vigilance, reversing our 3-year fund position of being ultra long to modestly net short. Macroeconomic imbalances and lofty pricing at the bourses kept us at bay for the most part. However, shorting equities with speculative tendencies or pricey multiples helped us produce double digit returns for the fourth consecutive year.

On operational front, we enhanced our resources by expanding our research team; furthering our active coverage to 250 stocks and 15 sectors, amounting to $18 trillion in market capitalization. Adorning a larger array of investment opportunities equips us to steer through the next leg of the market more prosperously. Although we eclipsed a bear-market this year, the fund will always yield higher profitability in a bull run – which is what we are positioning ourselves for. I will characterize our 2022 strategy and our outlook through responding to questions that we face today and the ones that we countered earlier.

Did the financial market capitulation have fundamental reasons behind it?

Absolutely! If you looked close enough, the markets had red flags all over. In fact, we were cautious since the 2nd quarter of 2021 as valuations raged and scores of opportunities diminished. The market rebound after covid boosted by interest-free liquidity led to a tenacious and swift revival in global economy. While stock prices started viewing that growth as a recurring phenomenon, we deemed those profits to be largely unsustainable. PE in excess of 25x became a norm and the expectations built in stock prices were far too great to withstand. For us, the last straw was the immoderate level of inflation which would have required, and eventually received, attention from central banks.

What are the biggest indicators we are looking at before going long in the market going forward?

Unemployment is the predominant macroeconomic indicator for us; as Fed Chair J Powell has also declared on multiple occasions, the labor market is at unhealthy levels. Despite rate hikes of record proportion, joblessness has remained glued below 4%. We opine that no respite shall come from the Fed until unemployment rises to levels between 4.5%- 5%. Till then, interest rates will remain at current or higher levels, keeping asset prices depressed. While a recession is traditionally an intimidating notion for investors, it does bring the "Fed Put" into play and we anticipate that a recession will incur once labor market cools.

From a micro point of view, we pursue companies with organic tailwinds despite the risk of a near term slowdown. While growth was given unrealistically high valuation in the past 12 months, the recent bear-run has investors over-turning to the other extreme. We are on the lookout for opportunities on battered down growth stocks in the current environment with a longer horizon and have already begun accumulating long positions where our conviction on the potential of the business model is strong.

Having previously done well with "cigar butts", we believe bargain value stocks are another low hanging fruit for us. Albeit we have not seen many of those yet, another bear run in 2023 is sure to create value propositions.

What are the biggest risks to our investment thesis in the short term?

2023 could be trickier than 2022 even after the significant adjustment to stock prices. While the COVID sell-off made stocks very compelling in 2020 and the speculative buying in 21/22 made stocks undesirable for us, the current middle ground is a less simple proposition. With 20% of stocks in our coverage down more than 50% since their highs, the uncertainty surrounding the intensity of the recession murks short term earnings visibility. We marked the strong economy, high inflation and high valuations as risks to the market in our last annual review – all those risks materialized. Earnings visibility is the biggest challenge this year! The levels at which stocks will bottom will be defined by how depressed profitability gets even if its in the short term. We might also miss some winners if we fail to anticipate the level of cost mitigation certain companies are flexible enough to do without damaging their operations.

2023 is the year of the Rabbit in the Chinese calendar- it is a shy and a curious animal. We share both sentiments very strongly at the time of this writing.

Syed Raza Mohsin

January 4th, 2023

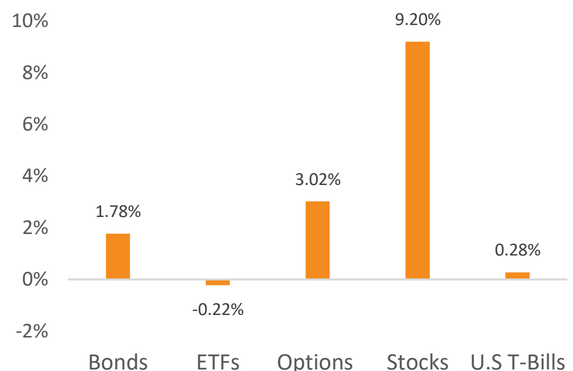
OUR INVESTMENT APPROACH

Vitality ramped up its fourth straight year of double-digit gross returns. Our aggregate return now stands at 268%, over 5x than the S&P500 or Nasdaq in the corresponding period.

We remained extremely diversified throughout the year - our average exposure in each scrip remained between 1- 5% of the fund size. We had a cap of 15% exposure in any sector at a given time.

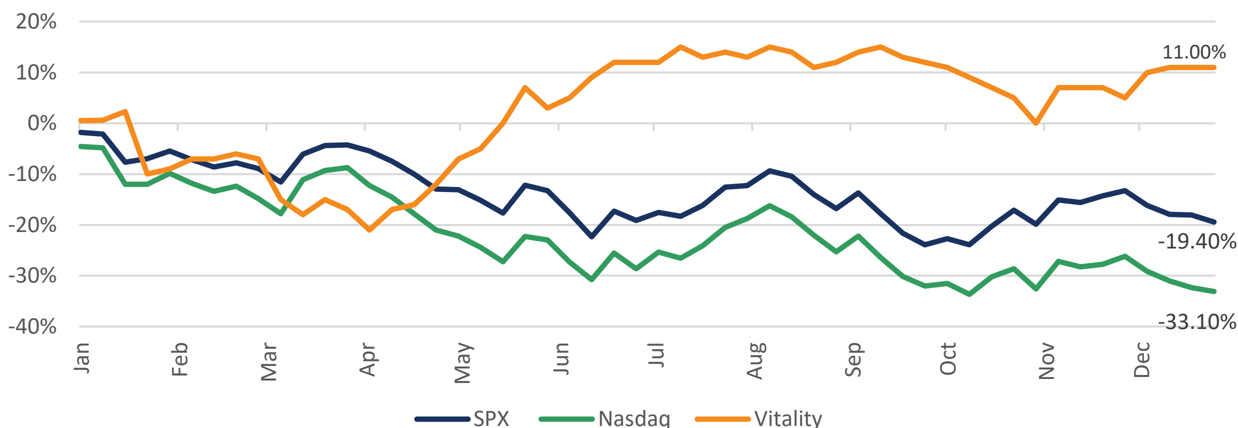
On average we carried a 6% short position in our portfolio through the year. Our position remained flexible as we maneuvered through changing landscape of the economy and the markets

We invested in 4 different asset classes with pre dominant exposure in equities. We also took negative exposure in asset classes such as cryptocurrencies and commodities through derivatives and stocks which were sensitives to their price movement.



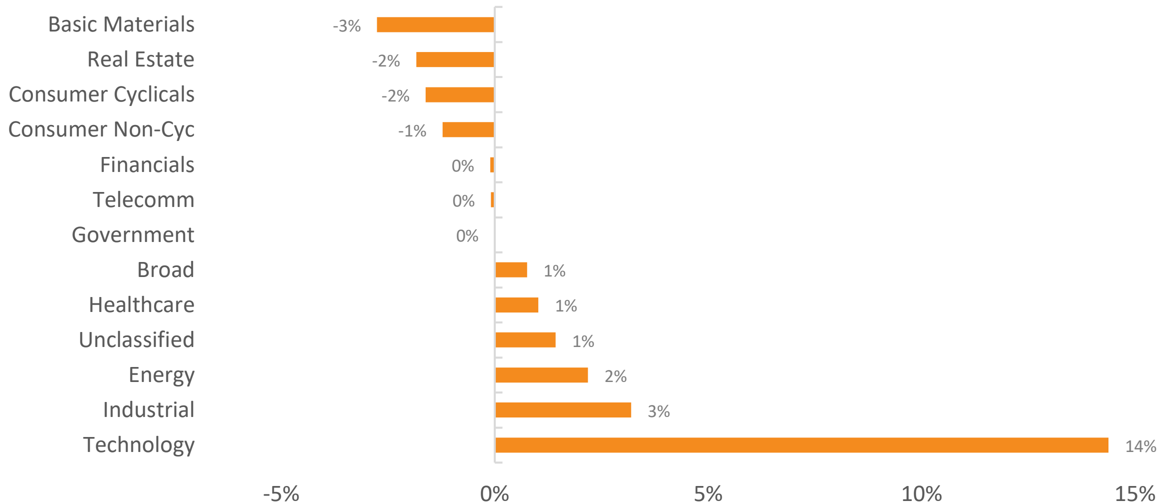
OUR YEAR IN CHARTS

Vitality Performance



TEN LARGEST HOLDINGS

Sector Returns

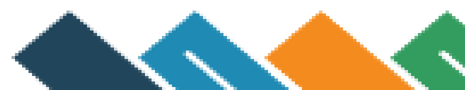


TOP PICKS

Ticker	Name	Target Price	Current price	Upside
		Longs		
ABNB	Airbnb Inc	140	85.4	64%
ASML	ASML Holding NV (ADR)	750	570.7	31%
COHU	Cohu, Inc.	45	31.7	42%
CSIQ	Canadian Solar Inc	60	30.3	98%
DIS	Walt Disney Co	145	89.5	62%
EXPE	Expedia Group Inc	125	88.9	41%
IFX	Infineon Technologies AG	40	30.3	32%
JKS	JinkoSolar Holding Co., Ltd	75	41.7	80%
LYFT	LYFT Inc	30	11.2	167%
META	Meta Platforms Inc	210	127	65%
MRVL	Marvell Technology Inc	60	36.5	64%
SHOP	Shopify Inc (US)	45	36.4	24%
SNAP	Snap Inc	30	9.0	233%
TSLA	Tesla Inc	150	108.5	38%
TTD	Trade Desk Inc	60	43.7	37%
UBER	Uber Technologies Inc	45	25.6	76%
WBD	Warner Bros Discovery Inc	15	9.6	57%
Z	Zillow Group Inc	50	34.1	47%
		Shorts		
AAPL	Apple Inc	100	126.5	-21%
CCL	Carnival Corp	4	8.1	-50%
CMG	Chipotle Mexican Grill, Inc.	1000	1382.3	-28%
DDS	Dillard's Inc	200	318.1	-37%
DRI	Darden Restaurants, Inc.	90	140	-36%
ETSY	Etsy Inc	70	115	-39%
KMX	CarMax, Inc	40	62.4	-36%
LAD	Lithia Motors Inc	150	203.8	-26%
LOW	Lowe's Companies Inc	140	201.6	-31%
WING	Wingstop Inc	70	133.4	-48%

Vitality Research Coverage

American Axle & Manufact. Holdings, Inc.	Abercrombie & Fitch Co.	Children's Place Inc	Honeywell International Inc	Taiwan Semiconductor Mfg. Co. Ltd. (ADR)	Merck & Co., Inc.	Cloudflare Inc	Booking Holdings Inc	China Southern Airlines Co Ltd	M.D.C. Holdings, Inc.	Prologis Inc	Bigcommerce Holdings Inc
Aptiv PLC	Best Buy Co Inc	Analog Devices, Inc.	Whirlpool Corporation	NVIDIA Corporation	AstraZeneca plc (ADR)	DoorDash Inc	Expedia Group Inc	Trip.com Group Ltd (ADR)	Toll Brothers Inc	DraftKings Inc	GoDaddy Inc
AutoNation, Inc.	Capri Holdings Ltd	Applied Materials, Inc.	Nio Inc	Advanced Micro Devices, Inc.	Veeva Systems Inc	Samsung SDI Co Ltd	Airbnb Inc	Tongcheng Travel Holdings Ltd	World Wrestling Entertainment, Inc.	Apple Inc	Salesforce Inc
Bayerische Motoren Werke AG	Carter's, Inc.	ASML Holding NV (ADR)	Zillow Group Inc	KLA Corp	Iqvia Holdings Inc	Panasonic Holdings Corp	Royal Caribbean Cruises Ltd	Jet2 PLC	Dave & Buster's Entertainment Inc	Alphabet Inc	Oracle Corporation
Mercedes-Benz Group AG	Express, Inc.	Cohu, Inc.	Opendoor Technologies Inc	Entegris Inc	Goodrx Holdings Inc	Netflix Inc	Norwegian Cruise Line Holdings Ltd	Air New Zealand Limited	Dine Brands Global Inc	Meta Platforms Inc	Wayfair Inc
Ford Motor Company	Genesco Inc.	Infineon Technologies AG	Redfin Corp	Monolithic Power Systems, Inc.	TCL Electronics Holdings Ltd	Walt Disney Co	Carnival Corp	Groupon Inc	Restaurant Brands International Inc	Amazon.com, Inc.	PayPal Holdings Inc
General Motors Company	Guess?, Inc.	KLA Corp	Sony Group Corp (ADR)	Microchip Technology Inc.	Xiaomi Corp	Lions Gate Entertainment Corp. (USA)	Matson Inc	D R Horton Inc	Jack in the Box Inc.	Microsoft Corporation	Alfen NV
Goodyear Tire & Rubber Co	Home Depot Inc	Lam Research Corporation	MGM Resorts International	Nintendo Co., Ltd	Sunrun Inc	Park Hotels & Resorts Inc	Hapag-Lloyd AG	PulteGroup, Inc.	Denny's Corp	Alibaba Group Holding Ltd - ADR	LYFT Inc
Magna International Inc. (USA)	Kimberly Clark Corp	Marvell Technology Inc	Live Nation Entertainment, Inc.	CAPCOM CO., LTD.	Adobe Inc	Tanger Factory Outlet Centers Inc.	Airbus SE	LGI Homes Inc	Darden Restaurants, Inc.	Tencent Holdings Ltd	Uber Technologies Inc
Mazda Motor Corp	Kohl's Corporation	NXP Semiconductors NV	ASM International NV (Amsterdam)	Activision Blizzard, Inc.	Intuit Inc.	Macerich Co	Bright Horizons Family Solutions Inc	Lennar Corporation	Cracker Barrel Old Country Store, Inc.	Baidu Inc (ADR)	eBay Inc
Niu Technologies - ADR	Lowe`s Companies Inc	ON Semiconductor Corp	Samsung Electronics Co Ltd Sponsored GDR Pfd	Electronic Arts Inc.	JinkoSolar Holding Co., Ltd (ADR)	Service Properties Trust	Travelzoo	Beazer Homes USA, Inc.	BJ's Restaurants, Inc.	JD.Com Inc(ADR)	Fastly Inc
PACCAR Inc	Macy's Inc	Renesas Electronics Corporation	Intel Corporation	HUYA Inc - ADR	Canadian Solar Inc.	Herbalife Nutrition Ltd	Hawaiian Holdings, Inc.	Century Communities Inc	Chuy's Holdings Inc	Meituan	Equinix
Penske Automotive Group, Inc.	Movado Group, Inc	Semtech Corporation	Micron Technology, Inc.	NetEase Inc (ADR)	Maxeon Solar Technologies Ltd	Cedar Fair, L.P.	Spirit AeroSystems Holdings, Inc.	Green Brick Partners Inc	Cheesecake Factory Inc	Pinduoduo Inc - ADR	Digital Ocean
Ryder System, Inc.	Signet Jewelers Ltd.	STMicroelectronics NV (ADR)	QUALCOMM, Inc.	Take-Two Interactive Software Inc	First Solar, Inc.	Six Flags Entertainment Corp	Delta Air Lines, Inc.	Hovnanian Enterprises, Inc.	Wingstop Inc	Snap Inc	Arista Networks
Renault SA	Skechers USA Inc	Synopsys, Inc.	Qorvo Inc	2U Inc	Daqo New Energy Corp (ADR)	AT&T Inc.	Air Canada	KB Home	Starbucks Corporation	Pinterest Inc	Planet Fitness
Sonic Automotive Inc	Tapestry Inc	Texas Instruments Incorporated	Broadcom Inc	Illumina, Inc.	Solaredge Technologies Inc	Warner Bros Discovery Inc	Marriott International Inc	Meritage Homes Corp	Domino's Pizza, Inc.	Trade Desk Inc	ChargePoint
Stellantis NV	Ulta Beauty Inc	ABB Ltd (ADR)	Semiconductor Manufacturing Int'l	Regeneron Pharmaceuticals Inc	Enphase Energy Inc	Funko Inc	Hilton Worldwide Holdings Inc	NVR, Inc.	Chipotle Mexican Grill, Inc.	Magnite Inc	Robinhood
Tesla Inc	Under Armour Inc	Fanuc Corp	Skyworks Solutions Inc	BioNTech SE - ADR	SMA Solar Technology AG	Paramount Global	InterContinental Hotels Group PLC (ADR)	Taylor Morrison Home Corp	Beyond Meat Inc	Roku Inc	Fortinet
Volkswagen AG	Vera Bradley, Inc.	Jabil Inc	Teradyne, Inc.	Moderna Inc	TPI Composites Inc	Comcast Corporation	Air China Ltd.	Tri Pointe Homes Inc (Delaware)	FedEx Corporation	Liveramp Holdings Inc	Okta
Yadea Group Holdings Ltd	Williams-Sonoma, Inc.	Rockwell Automation	Taiwan Semiconductor Mfg. Co. Ltd. (ADR)	Bristol-Myers Squibb Co	Vestas Wind Systems A/S	AMC Networks Inc	China Eastern Airlines Corporation Ltd.	M/I Homes Inc	United Parcel Service, Inc.	Shopify Inc (US)	Steel Dynamics



RENEWABLES

Solar revenues remain robust despite operational headwinds

Global solar demand continues its robust growth streak as demand is set to grow by 40% in 2022 and 25-30% in 2023. Solar capacity additions in 2022 are expected to be 51% of total capacity additions globally, from 44% in 2021. Favorable economics, extension of tax credit in US (under IRA in Aug-22) and REPower (in Europe) suggest solar capacities could grow by more than 3x by 2030 from 2021. Besides fiscal incentives, we believe higher and volatile energy prices also strengthen the case of shift to solar energy.

Additionally, Increased adoption of solar energy brings forth increasing demand for energy storage. Consequently, we see exponential growth (18% CAGR 2022-2027) in the coming years. Canadian solar, Solar edge and Enphase energy are poised to benefit from it.

Meanwhile, the run up in polysilicon price (up 3x from 2019 levels) significantly lifted revenues and margins of Polysilicon manufacturers (DQ). On the flip side, this dented margins of Module manufacturers (JKS, CSIQ). Logistic cost remained elevated however, is now coming down

Modest growth in wind energy installations to continue in 2023

We see global wind installations to see muted growth of 5% in 2023 for the fourth consecutive year. The industry may be poised for a higher growth post 2023 as supply chain constraints has started to ease and steel price are down. That said, we see a lot of room in operational margins to improve. Nevertheless, valuations appear already elevated for Vestas which is trading at 39x PER on 2024 earnings.

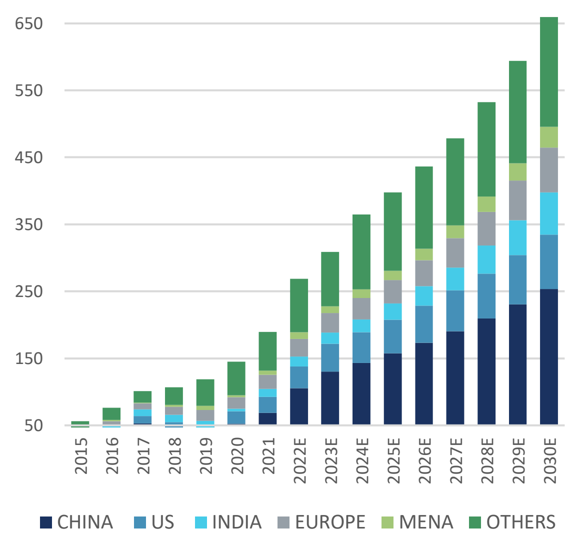
Solar Modules: Eyeing strong earnings recovery; Overweight on JKS and CSIQ

We see strong earnings recovery in JKS and CSIQ as operational margin headwinds are anticipated to ease in 2023. Polysilicon price is down 11% while logistics costs is down 77% from their respective peaks. Encouragingly, Gross margin guidance has already started to improve (thanks to increasing in-house production of wafer & cells), while management comments on logistical cost has been promising (impact to be seen mid-2023). Meanwhile, revenue growth remains robust for JKS and CSIQ (87% and 53% respectively in 2022). This together with 56% and 35% increase in manufacturing capacities by end of 2022 suggests this momentum to continue in coming years.

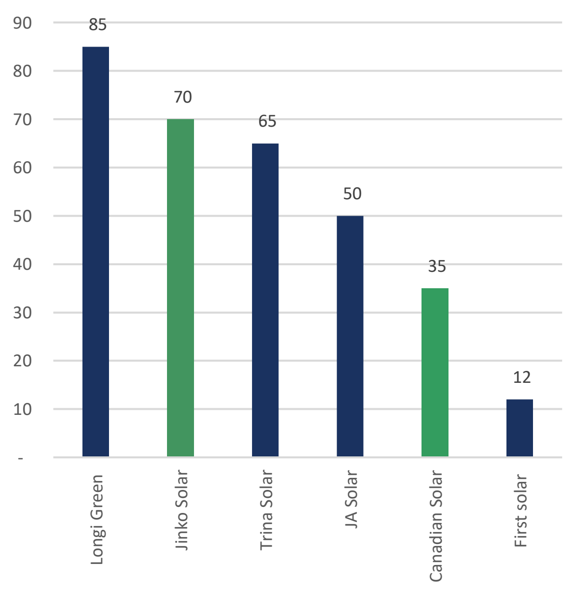
For CSIQ, we see formal announcement of expansion of manufacturing footprint in US (benefitting from tax credit under IRA) to serve as a catalyst for the stock.

JKS and CSIQ trades at undemanding valuation of 6.5x and 5.5x 2024 PE. We have a target price of USD 75/share on JKS and USD 60/share on CSIQ.

Annual Solar installations (GW)



Solar Module Production capacity by 2022 (GW)



RENEWABLES

Inverters: Rich valuations suggest strong growth is priced in

We expect revenue growth for ENPH and SEDG in 2022 in the ~60% range with CAGRs for the next 8 years ended 2030 of ~18% for SEDG and 22% for ENPH. However, on margins, we anticipate ENPH is likely face headwinds as they expand in Europe while SEDG should see tailwinds as they expand in US and realizes the impact of price increase.
Nevertheless, we see strong earnings growth is built into valuations where ENPH is trading at 75x 2024 EPS (exc. S.B.C) while SEDG is trading at 36x 2024 EPS (exc. S.B.C). We have a target price of USD 290/share on SEDG and USD 275/share on ENPH.

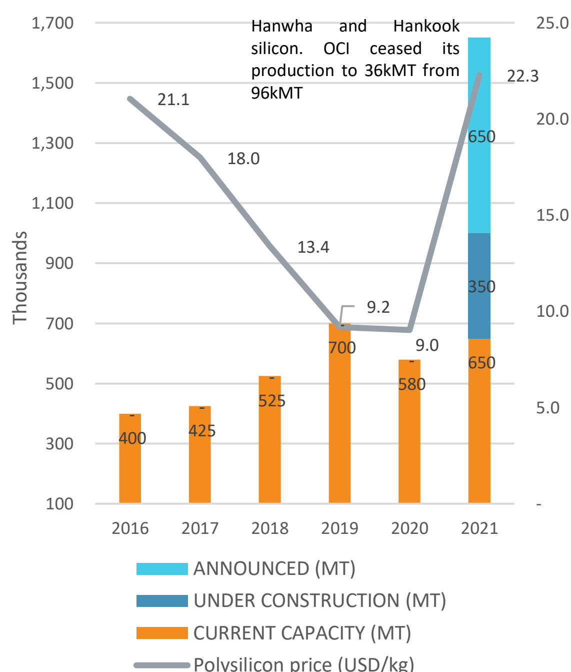
Polysilicon: DAQO remains cheaper on valuations despite headwinds on price

Polysilicon segment has entered an expansionary phase with capacities expected to increase by 2.5x to 500GW which is anticipated to create an over supply situation by next year. Therefore, we expect polysilicon prices to come down significantly.

We have an Overweight stance on DAQO with a target price of USD 75/ADS. Its current market cap of USD 3bn equaling its net cash position implies a null value to its core business. DQ trades at undemanding valuation (4.7x 2024 PE (on normalize margins of USD 5/kg vs current margin of USD 25/kg).

Daqo has fully utilized its authorized share buy back program of USD120mn (4% of market cap.) as of 3Q2022. We believe the company can continue a similar buy back program or may raise its dividend payout in 2023.

Global Polysilicon **Production** capacity (MT)



Company	Current Price	Target price	Upside	Market Cap (Mn)	Enterprise Value (Mn)	2023 EPS	2023 PER	2023 EV/EBITDA
Jinko Solar	40	75	88%	2,190	7,967	3.0	13.2	7.6
Canadian Solar	30	60	103%	2,133	4,579	3.8	7.9	5.7
Daqo	39	75	91%	2,990	1,493	22	1.8	1.3

SEMICONDUCTORS

Beginning of a downcycle:

The potential for an economic downturn to push end-market demand weakness beyond consumer devices creates a high risk of declines in chipmaker sales. A slowdown in PCs and smartphones, exacerbated by double ordering among some OEMs, and the possible loss of Chinese revenue amid US-China tensions renders a sharp recovery improbable. However, the extent of the impact of these head winds remains quite bifurcated amongst different segments in the sector, leaving pockets of value.

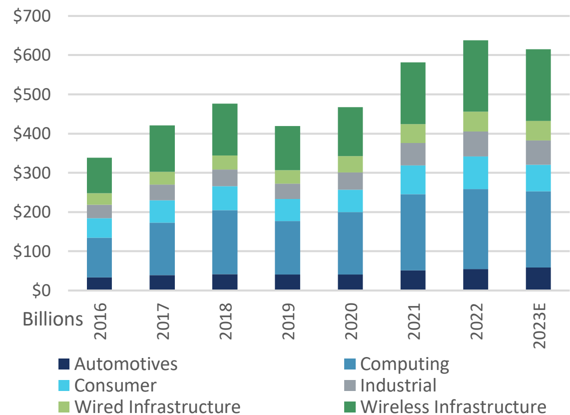
Secular tailwinds in autos offset short term headwinds:

Structural changes within the automotive industry, driven mostly by electrification and increasing ADAS support continued to fuel the automotive segment of semiconductor manufacturing this year. While the risk of double ordering by OEM's exists, we believe the semi-content increase in automotives will continue to propel growth within the segment. Furthermore, many of the IDMs focused in the segment are undergoing fundamental changes, with fabrication transitions to 300mm and an exploration of SiC. This transition should offset most of the negative impact on margins from falling ASPs as foundry tightness eases.

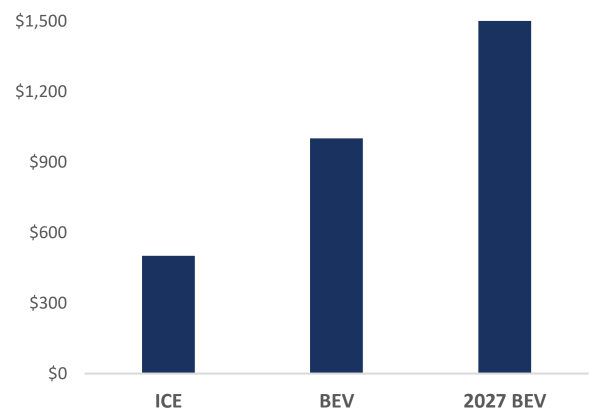
Polarization between consumer and enterprise driven markets:

The latter half of 2022 saw significant weakness in consumer markets driven largely by a decline in disposable income owing to high inflation and rising interest rates. We expect this weakness to continue into the next year leading to an adverse impact on consumer centric players. On the other hand, enterprise driven markets remained resilient despite a looming macro-economic slowdown. Cloud capex remained a bright spot and should continue to be so as companies continue strategic investments to strengthen their cloud infrastructures.

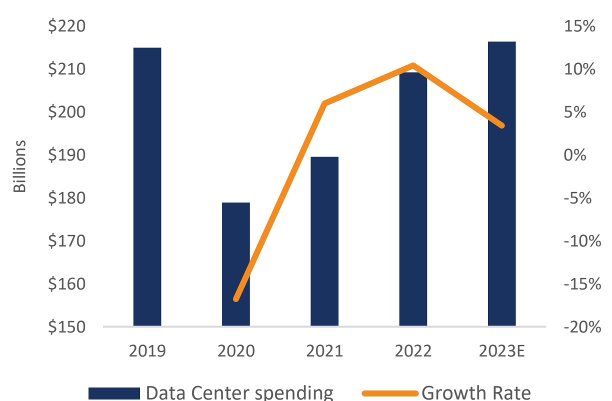
Industry likely to decline 4% next year



Semi-content($) per vehicle more than doubles with electrification



Data Center Systems spending is set to rise 3% next year

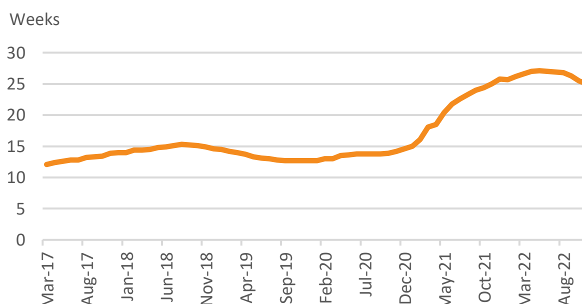


SEMICONDUCTORS

WFE manufacturers face tough times ahead:

Capacity tightness easing, lead time reversion and a memory downcycle in 2H22 led to many foundries and IDMs to roll back or delay on their ambitious capex plans. This coupled with export restrictions amid geo-political tensions will lead to at least a 20% reduction in WFE spending next year. Nonetheless, most major foundries still continue to expand their technology portfolios with investments into leading edge fabrication, fueling demand for EUV and DUV lithography.

Lead times are off their peaks as shortage eases



Top Picks:

ASML: Inevitable investment into leading edge fabrication and a monopoly over advanced lithography equipment positions ASML to stand out in a faltering WFE industry. As EUV sales gain momentum, we believe ASML's will experience a 28% earnings growth CAGR over the next 3 years. With a target multiple of 35x on next year earnings, we arrive at a $750 PT**.**

Infineon: Infineon's exposure and strength in automotive semiconductor manufacturing primes the company to benefit from the decarbonization and digitization of automotives. With sales expected to rise 10% next year, in line with their long-term target, and earnings to grow by 16% annually over the next 3 years, we assign an 18x multiple on a forward EPS of €2.3. Our TP therefore is €40.

COHU: An uptick in automotive semi demand will drive the market for dedicated chip gear as well. Cohu's strong line of automotive centric testing equipment as well as their margin accretive product mix change allows them to earn $3.1 per share in 2023. Currently trading close to 10x next year earnings, we believe the company's potential is severely underpriced. We therefore are overweight with a TP of $40.

Marvell: As the necessary cloud transition continues, Marvell's superior DPUs allow the company to maintain long term growth ahead of any potential short-term data center capex slow down. We expect Marvell to earn $2.5 per share next year, allowing for close to 70% upside with a $60 TP.

Company	Current Price	Target price	Upside	Market Cap (Mn)	Enterprise Value (Mn)	2023 EPS	2023 PER
ASML	546	750	38%	221,988	222,125	21	26x
IFX	€29	€40	39%	€37,127	€39,992	€2.3	13x
COHU	32	45	41%	1,527	1,250	3.1	10x
MRVL	37	60	66%	31,603	35,617	2.4	15x

HOUSING

Homebuilding – Sales cool off as rates continue to affect affordability

Sales of new homes have declined 15% YoY in 2022 while home prices continue to hover near all-time highs at $480k. Things fared worse in existing home market as seasonally adjusted sales declined 34% YoY and prices came off by 10% from peak. Record prices and highest mortgage rates in two decades have left the homebuilding sector creeping towards a downcycle. Backlog, with value twice of pre-covid levels, have declined 16% from highs hit mid year. Affordability issues have led to a rise in cancellation rates, standing at 23% last quarter against lows of 9% in 2021. This has left builders holding the bag, with inventories staying flat QoQ, and near peaks. Spec inventory has contributed but cancellations have been the prime culprit in widening the gap between construction and orders. Builders have started to cut prices and bring back incentives to move cancelled inventory, which is evident from gross margins having shrunk 140bps sequentially.

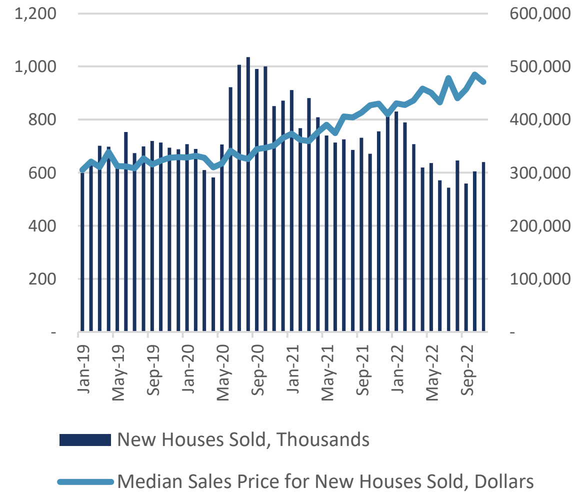
	2018	2019	2020	2021	Q1CY22	Q2CY22	Q3CY22
Builders' inventories	29,807	31,147	32,535	38,523	43,622	47,720	47,162
Backlog Value:	25,139	25,646	39,120	52,873	63,356	63,348	53,170
ASP in Backlog ($'000)	437.2	425.7	421.0	502.0	519.4	545.9	557.5
Gross Margins	18%	18%	20%	24%	26%	27%	26%
Cancellation rates	15%	15%	14%	9%	10%	14%	23%

*From Company accounts of DHI, LEN, NVR, TOL, THMC, LGIH, TPH, CCS, KBH & BZH

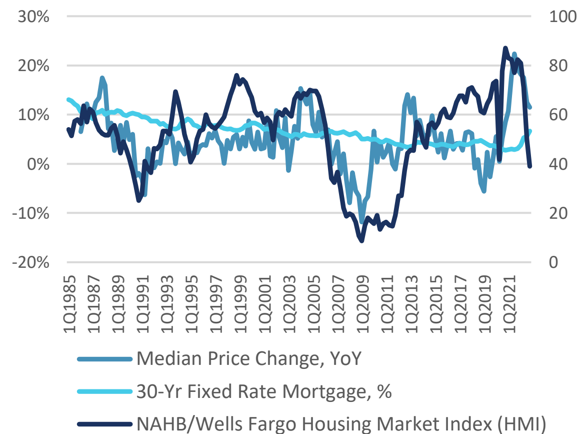
Builder confidence near decade lows

The HMI, a Homebuilder survey conducted by The National Association of Realtors and Wells Fargo, a key indicator of sales traffic and expectation hit 31 in November, lowest since Jul'12. Whenever the Index has dipped below the 40 mark, it has generally been a precursor to home prices seeing YoY price declines. Builders echo this sentiment in their commentary, many noting that they are having to reduce prices in some regions as demand recedes. Their inventory of finished homes is also reaching the highest level since 2020. Build times meanwhile, even though marginally down, are nowhere near pre-covid levels and still stand 4 months longer from the 4-6 months duration previously. Though supply-side bottlenecks having disappeared and prices for key raw materials like lumber have attained normalcy, cycles remain stretched due to continuing labor shortages with over 370k Job Openings in the construction sector.

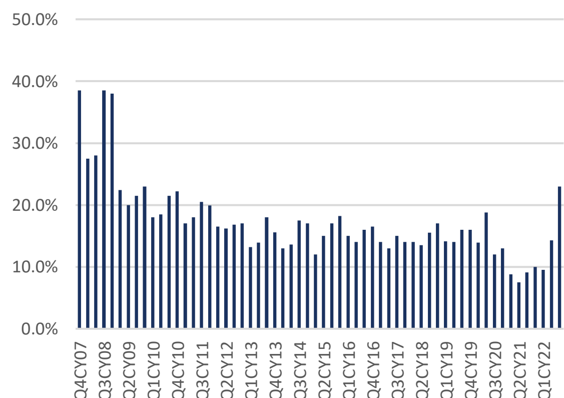
Home Sales have declined to 2019 levels as prices remain stubbornly high

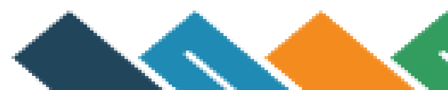


HMI Index, based on survey of homebuilders, below 40 and rising rates generally precedes a negative trend in price growth



Cancellations have risen to highest levels since 2009





HOUSING

Red herring valuations

We acknowledge that sector is trading at a discount as builders have capitalized on their strong cash flows. In the prevailing two years they have deleveraged their books and bought back 8% of their current market value. However, high interest rates, affordability issues and subsequent sales and margin risks mean we have a cautionary stance. We currently have a UNDER WEIGHT rating on the sector.

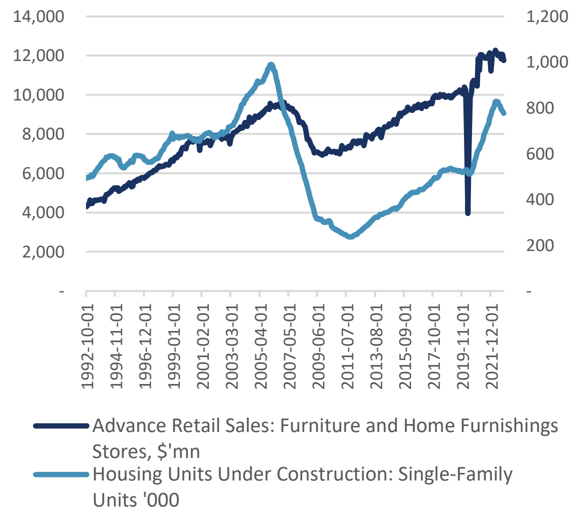
Home Improvement - Downturn expected to hurt supplier

Retail sales in the housing segment are historically linked to construction. We believe the high level of DIY activity in the preceding two years entail that sales could be even more depressed than previous recessions. Decline in home prices, similarly has a direct link with spending. With likelihoods of depressed construction activity in the next year, retail will follow suite from mid-2023 and well into 2024. We expect Home Furnishing and Furniture segment to decline 10% YoY and sales at Home Depot, Inc. (HD) and Lowe's Companies, Inc. (LOW) to remain pressured. LOW seems to be more exposed with a lower market share, offering, higher seasonality and weaker profitability. With shares trading at 20x P/E of two year forward earnings against historical average multiple of 14x, there seems to be high potential for correction in the next year.

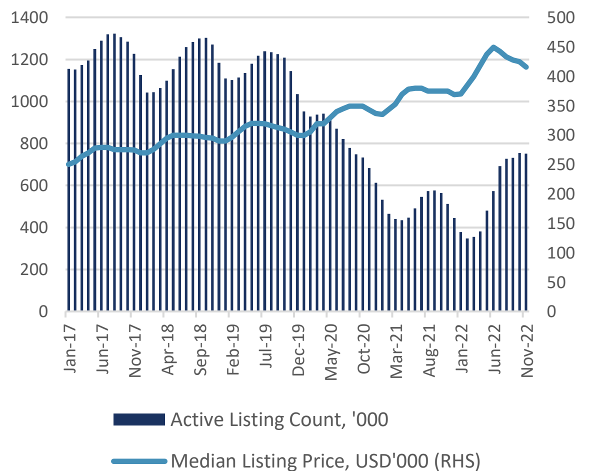
Property Tech

The decline in existing home transactions and home prices spelled disaster for the real estate technology sector. The slow down exposed the perils of iBuying, eventually pushing Redfin to follow competitor Zillow in closing down the segment and Opendoor's valuation to collapse a hefty 92%. Decade high mortgage rates continued to push buyers out of the market causing tough times for advertisers and brokers. However, Zillow's decision to focus on their cash cow advertisement business, proved to be fruitful. With Zillow Offers no longer burdening the company, and their transition into a one stop housing solution, Zillow's synonymity with Real Estate should allow it to fare through these headwinds and emerge as a winner. Assigning a 20x multiple on 2024 earnings, we remain overweight with a $50 PT.

Current Construction Activity Peaking As Homes Under Construction Near 2006 highs



Lower Prices, Higher Listings – Pain for Flippers



Company	Current Price	Target price	Upside	Market Cap (Mn)	Enterprise Value (Mn)	2023 EPS	2023 PER	2023 EV/EBITDA
Lowe's	199	140	(30)%	123,500	148,600	12.51	16	12.5
Zillow	32	50	65%	7,593	5,762	1.9	18	8.0

US BIG TECH

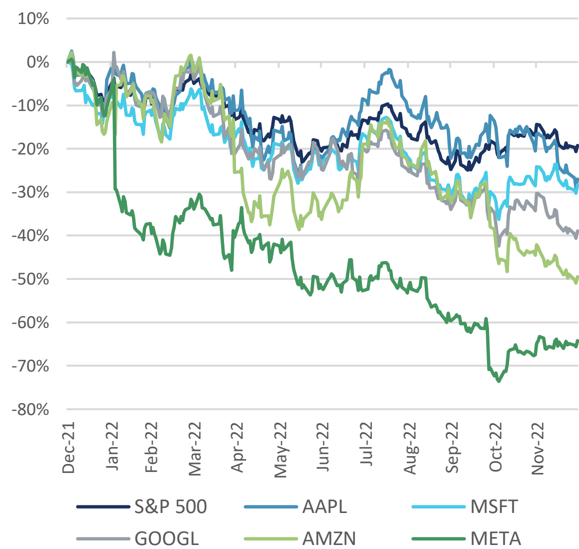
We have long call on META and AMZN and short call on AAPL

Meta stock fell 40% after Q3 results as guidance for next quarter and next year's costs and continued capex spooked the investors in an anticipated weak ad market. In our view, social media has become extremely competitive and Meta's success in metaverse is critical if it wants to remain relevant in future. We think that current valuation is undemanding. We believe company will not increase costs and capex as guided and will lower them beyond 2023. We are bullish at current valuation and see any downside as an opportunity to accumulate. We have a TP of USD 210 or 17x 2024 earnings

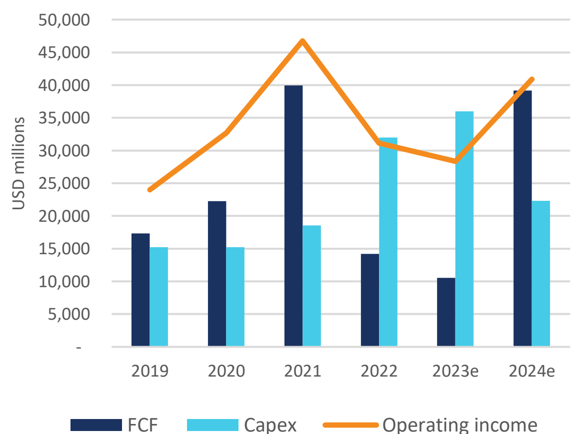
AMZN expanded very rapidly during Covid to cope with high e-commerce demand and announced cost-cutting across warehouses earlier this year. Not enough cost cutting and weakness in consumer spending and cloud business led to rout in scrip. While growing topline will remain a challenge in this environment, AMZN might benefit from easing of logistics costs, loose labor market and higher impact of fx on its costs. We believe company would be able to maintain its margins in 2023. Additionally, AMZN is also in investment cycle with higher capex, which should start improving from 2023 onwards. We see possible downside as an opportunity with a TP of USD 100 or 23x 2024 earnings.

AAPL has been deemed as "Rock of Gibraltar" in these uncertain times as iPhone and services sales continue to boost topline, and company continues to generate 100bn USD of cashflows. However, last quarter guidance indicated lower yoy mac and iPad sales in addition to further slowing down services sales. Additionally, AAPL forecasted a 10% fx headwind for next quarter. We expect AAPL to trade lower as we estimate lower sales for this year and slightly compressed margins. While we are behind consensus, we feel that current valuation is too high for even consensus's 6% eps growth over the next three years and expect AAPL to trade around USD 100 levels.

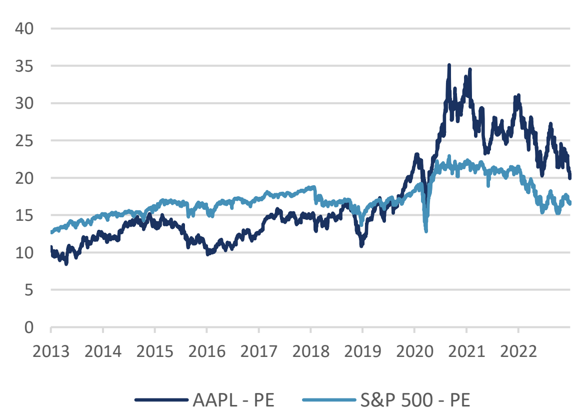
Relative performance



Meta's FCF should improve as Capex eases and cost cutting measures take affect



AAPL traded lower than S&P500 when its earnings growth flattened



AUTOMOBILES

Challenging year ahead for the auto industry as supply improves and demand falls.

13.7M new vehicles were sold in US in 2022, lowest in a decade. Despite low volumes, profits soared due to record selling prices (ASPs). New vehicle volumes are forecasted to recover to ~15M in 2023 as supply shortages ease. This comes at the cost of high profits enjoyed by OEMs in recent years. ASP for new vehicles reached a record high of 48,681$ in Nov 2022 and was, on average, around 20% higher in 2022 than in 2019. We expect ASPs to decline ~10% due to a shift in mix and higher interest rates leading to greater discounts from OEMs.

Adoption of electric vehicles (EVs) continued to grow in US, estimated to reach 5.6% in 2022

Around 750k EVs were sold in 2022, growing over 75% YoY. We expect EV penetration in US to increase to 40% by 2030, aided by the 7500$ clean vehicle tax credit.

Tesla valuation has become increasingly attractive.

For the EV shift, just as important as battery costs or consumer demand has been Tesla's humongous valuation which served as a flashing sign for auto execs to spend big on electrification. We were short this name throughout the year but the recent decline in stock price has made it attractive. Tesla now trades 22 times our 2024 bear case EPS estimate of $4.57. Tesla is a quality asset that should command premium valuation. We are buyers on further declines in price based on our target price range of 135 - 140.

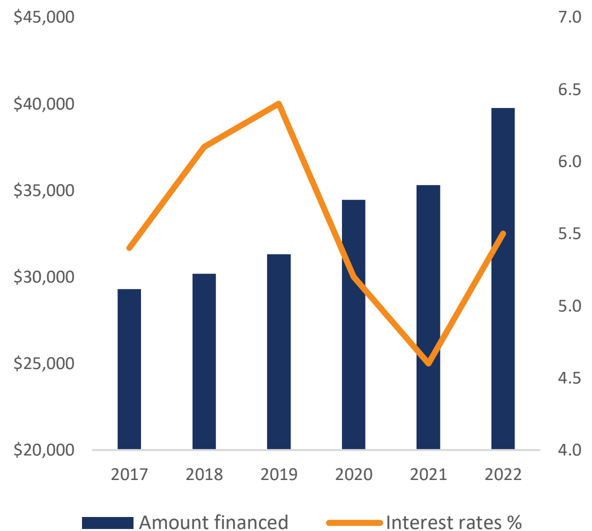
Positive outlook on EV investments by General Motors and Ford, however auto loan delinquency risk looms

Both stocks trade at a modest multiple of 6-7x normalized EPS. Our target prices for GM and Ford are $51 and $17, respectively. However, a significant portion of their earnings come from their financing businesses, which are vulnerable to increasing auto loan delinquencies. Therefore, we would wait for better entry prices to compensate for the risk.

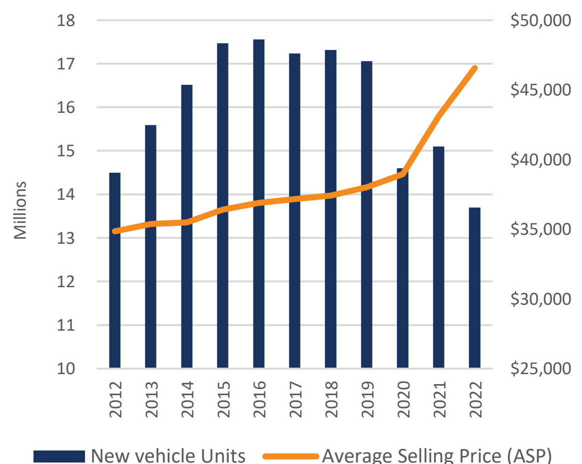
Used car dealers face lower volumes and depreciating prices

Manhiem's Used Vehicle Value Index has fallen 14% from record high but is still 40% higher than March 2020 levels. Used volumes have declined sharply as high prices meet soaring interest rates. According to Edmunds, average APR on used vehicles was more than 10% in Dec 2022. Holding a depreciating asset that is increasingly difficult to sell poses a risk to revenue and profitability, making auto dealers a risky asset to own. We see downside in the stock prices of CarMax (KMX) and Lithia Motors (LAD). CarMax has $16B auto loan receivable and is vulnerable to increase in delinquencies. Our 2023 EPS estimate for KMX is $2.56. We believe the stock should trade 7-8x its normalized EPS of $5.2 at our target price range of $37 - $40.

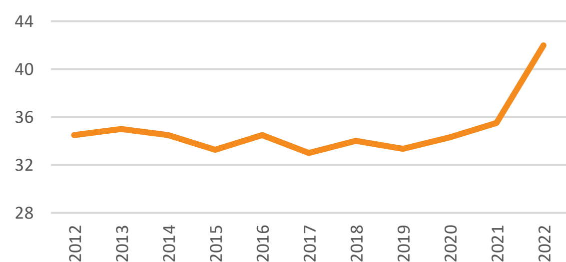
New Car loans amount finance and APRs



New Vehicle ASPs & Volumes



Weeks of income needed to afford a new car



Company	Current Price	Target price	Upside	Market Cap	2022 EPS	2023 EPS	2022 PER	2023 PER
TSLA	105.2	140	33%	334,440	3.91	3.99	26.91	26.37
GM	33.63	51	52%	47,790	7.28	3.97	4.62	8.47
F	11.12	17	53%	46,880	2.01	1.29	5.53	8.62

MEDIA & ENTERTAINMENT

Streaming Gains to stabilize from Ad tier services

Growth in streaming subscribers has slowed from the heady increases during the depths of the pandemic, growing by 103 million in 2022, compared to 160 million in 2021. We see ad-based tier from Netflix, Disney along with a revamped HBO MAX to reignite growth going forward. We anticipate streaming subscribers to increase by 10% in 2023 to cross the 1bn mark and expect the same growth rate to continue till 2025.

Behemoths to continue dominating

All time high competition within the space has pushed consumers to being selective about the number of services subscribed. Extensive libraries, premium IPs and a better geographic reach should sustain NFLX, DIS and WBD as the leaders of the space moving forward. Growth in Disney+ and HBOMAX subscriptions will push the combined market share of all three players to a staggering 60% in 2023.

With their new venture into an ad-based product, NFLX and DIS should both benefit from an improved ARPU thereby driving profitability. Both players have also already increased prices of their ad free service by 12% and 35% respectively, boosting unit economics further.

Linear TV headwinds extend

TV Advertising- major revenue chunk is typically among the first affected in a recession as marketers pull back their budgets and, except for FOX, results have been weak across the board. Affiliate fee is also losing its ground as pace of cord cutting increases (now ~7% vs 5%).

Paramount Global and WBD with their highest Cable TV exposure continue to face tough times with structural headwinds to revenue and rising sports rights cost. We see Paramount faces the highest brunt as they are expected to see maximum increase in sports rights cost. However, WBD with its potential synergy cost benefits and muted increase in sports right cost can somehow manage the storm.

DISNEY- Declining DTC Losses to improve earnings

Disney's premium content IP and a solid content slate in 2023 will drive subscription growth moving forward. The consequential acceleration in DTC revenue and a continued strength at theme parks, despite a potential short term slow down, should ramp up earnings growth.

We, therefore, remain overweight on DIS with a target price of USD 145/share. With the stock trading at just 13x 2025 EPS of $6.4, we believe current valuations do not price in the expected earnings growth of 23% (2022-2025).

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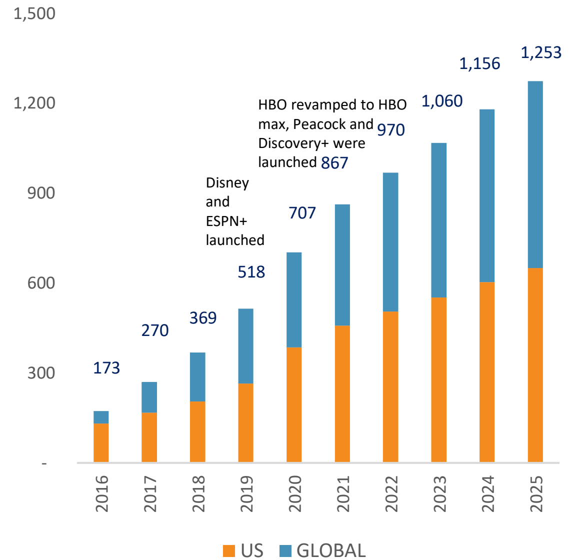
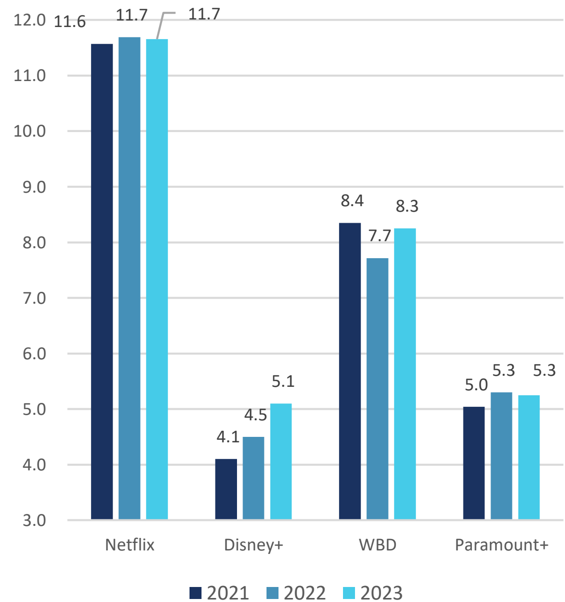
Streaming subscribers to exceed 1 bn by 2025



Monthly ARPU by streamer (USD/month)



MEDIA & ENTERTAINMENT

WBD: All eyes on Execution

We have a target price of USD 15/share on Warner Bros Discovery. We think WBD offers compelling risk reward given its, 1) low valuation (5.8x EV/EBITDA) 2) Strong EBITDA growth outlook (14% 2022-2025 CAGR) through industry leading entertainment content portfolio, synergy realization, progress towards DTC scale and path to deleveraging.

We believe the market is ignoring the company's strong brands and unique assets (WarnerBros, HBO and Discovery) and weighing more concerns on current headwinds. That said, we think successful synergies realization and deleveraging should unlock the valuation.

Netflix: Strategic Pivot to re-accelerate growth

Netflix's diversified content library positions it to benefit from a continuing streaming adoption. Its endeavor into ad-based offerings will help the company to re-accelerate top line growth. Our target price of USD 360/share implies meager returns of only 22% from current levels, therefore we would wait for more valuation compression before we enter a position.

Content cost per user (USD/month)

	2020	2021	2022	2023
Netflix	5.1	6.4	6.6	6.3
Hulu	4.4	4.9	7.3	9.7
DISNEY+	2.0	3.2	4.7	5.1
WarnerBros. Discovery	4.8	5.3	5.2	7.1
HULU	8.5	8.3	9.6	11.0
Paramount+/Pluto TV	2.8	4.2	4.9	7.0
COMCAST (PEACOCK)	5.0	4.7	4.2	9.3
ESPN+	4.8	3.9	4.0	6.1

Company	Current Price	Target price	Upside	Market Cap (Mn)	Enterprise Value (Mn)	2023 EPS	2023 PER	2023 EV/EBITDA
Disney	86.8	145	62%	155,125	191,879	3.8	21.1	11.2
WarnerBros Discovery	9.5	15	57%	21,852	69,299	0.75	12.0	5.8
Netflix	295	360	22%	131,160	139,002	11.5	25.6	25.0

LOCAL COMMERCE

Uber, Lyft and DoorDash have significantly underperformed the market on having unproven business models in a possible recessionary environment

Local commerce sector remained out of favor as recession fears built up through the year. Investors are skeptical of relatively new companies which relied on investor money and subsidized services for growth. Bears believe that topline of these companies will be affected as US enters recession and unlike previous years, they will not be able to subsidize their services to maintain topline growth due to high interest rates and cost of cash-burn. These companies do not have time tested business models, hence how recession will affect them remains unclear.

Ride hailing companies could fare better than expected in recession as supply side tailwinds offset any demand weakness

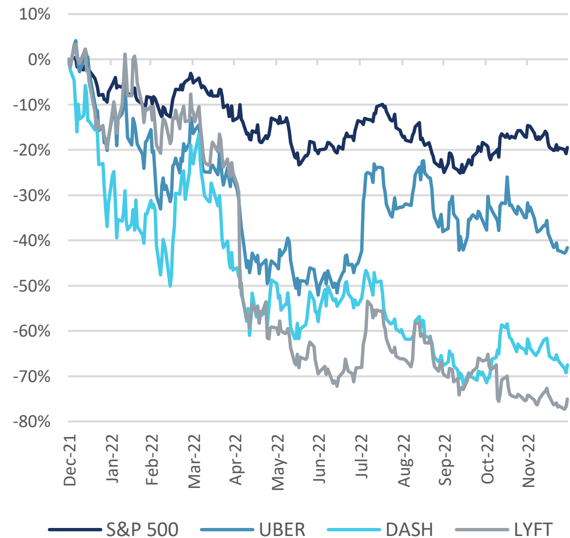
We believe ride hailing companies are better positioned and should perform better than investor expectations. Our understanding of the business model suggests recession could lead to both higher supply as well as higher demand: high unemployment during recession will ease driver supply and with high interest rates and new car prices, demand could also remain elevated. Companies deploy sophisticated technology on their platform which balances supply with demand – as supply increases, incentives to drivers decrease and ride rates decrease providing automatic incentive to riders while when demand increases, ride rates increase, and drivers earn higher income. This process makes the revenue line an output and companies manage incentives and expenses to generate EBITDA. We also believe that ride hailing has become indispensable in lives of millions and these companies should come out bigger on the other side of recession.

We have long call on UBER and LYFT but wait for further data points on restaurant sales to have a non-neutral call on DASH

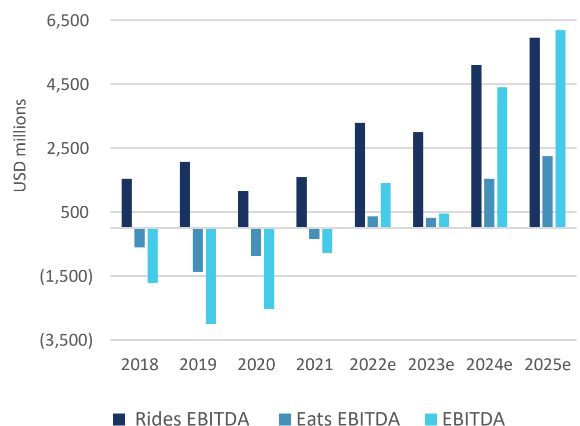
We believe UBER could come out very strong post-recession. It is a unique assets – a global local commerce company with a verb-brand popularity. An able management is in place which has shown flexibility so far in fluid macro environment. Uber's subscription business is value-additive for consumers and is gaining popularity. Margins are being supported by strong growth in ad business. While company has stopped burning cash and is EBITDA positive for five quarters, Uber's cost cutting initiatives are also being executed well with path to overall profitability clear and in-sight. We have a USD 45 TP on UBER or 20x 2024 EBITDA.

We also like LYFT in the space as we feel that insolvency risks are over-played and valuations are undemanding. While company faces challenges for being the smaller player in an oligopoly in addition to headwinds from higher impact of inflation (higher costs of insurance has kept margins in check), we feel that an EV of USD 150 per rider is a bargain for any of the large automobile companies willing to venture into ride hailing business.

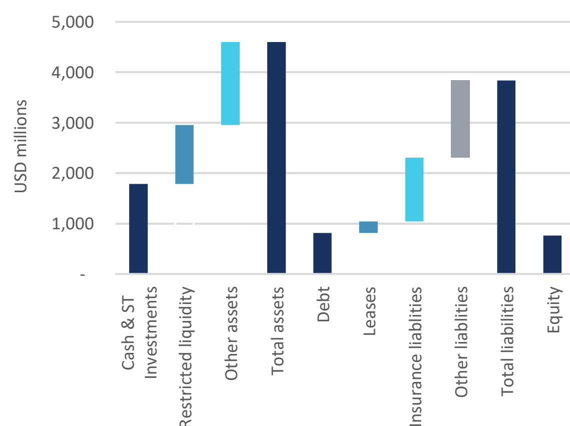
Relative performance



Uber's path to profitability is clear



Insolvency fears in LYFT are overblown



E-COMMERCE

E-commerce space has seen massive correction on the back of reopening post pandemic and normalization of trends in consumer spending

Bears had a good justification in e-commerce space: valuations expecting permanent shift in consumer buying behavior were not maintainable once the world put the pandemic behind. On the back of overly optimistic topline trends, companies in space over-invested as well and chose growth over profitability. Together, normalization of consumer buying behavior and higher costs led to a grim scenario while expectations of recessions increased. From our universe, Wayfair performed the worse: as soon as the supply pressures eased, new-home sales started slowing down putting continued pressure on topline.

As valuations have dispersed, we expect varying performance from companies in the sector

We believe e-commerce is sticky due to the convenience it offers to consumers and will continue to increase in proportion to overall consumer spending in the long term. The reversion to normalcy is still growth albeit slower than experienced in pandemic. However, pace of further adoption will depend on the product mix and some product groups will face more challenges for adoption than others. Overall, we like more diversified players offering attractive valuations over niche players.

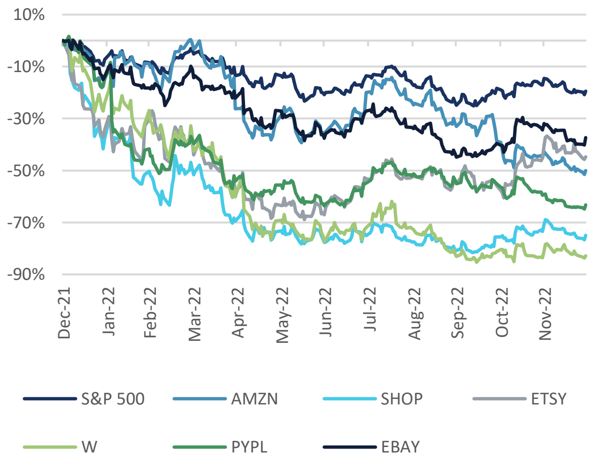
Other than AMZN, we find SHOP and PYPL attractive and remain bearish on ETSY

We find SHOP attractive trading at 22% of this year GMV. It is the largest e-commerce enabler which allows brands to retain their identities unlike large platform, while still picking revenue on platform model (percentage of sales). Like other players in the space, SHOP also over invested through the pandemic but is now executing better than others on its cost cutting initiatives – market cheered its 3Q result on better profitability. We also believe AMZN's FBA activation on Shopify to be less big of a threat than perceived. Considering that AMZN was able to generate over 2% of its product sales in operating income, a similar level of profitability is achievable by Shopify as well in medium term. We have a TP of USD 45 on the scrip with a 36% upside

Although not an e-commerce player, PYPL has significant exposure to the sector. We find its valuation undemanding trading 17x current earnings. PYPL is the only true global fintech with presence in most countries than any other wallet. With ebay disintegration behind, our analysis suggests growth should return, specially with recent integration of Venmo with Amazon and cross border improving with China's opening. In addition, comps should also be easy from 2Q onwards. We have a 27x 2024 earnings TP of 135 providing an upside of 90% from last close.

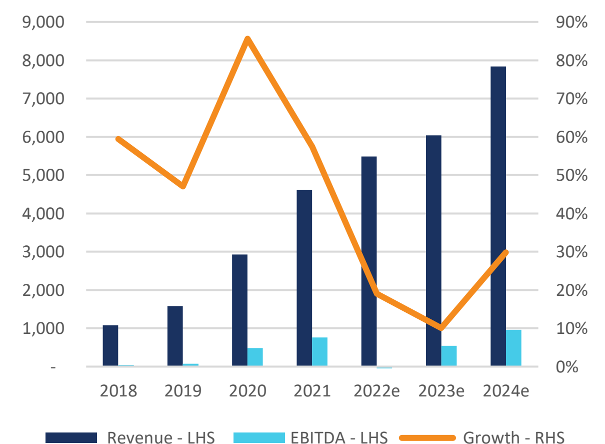
We are bearish on ETSY as we believe valuation is still stretched and does not price in the risks of company's exposure to purely discretionary spending. We believe ETSY's peak earning occurred in FY21 and will not be able to achieve similar levels before FY26. Currently trading 27x its peak earnings and 40x next year earnings, we believe scrip could face further downward pressure as topline comes under pressure. We expect ETSY to trade around USD 80 or 18-19x peak earnings.

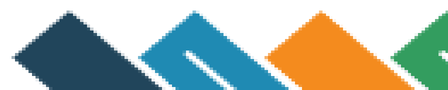
Relative performance



US E-commerce share of total retail

Shopify is executing well on cost cutting measures





DIGITAL ADVERTISING TECH

Investors shunned pandemic era darling ad tech assets as industry dynamics and macroeconomic outlook deteriorated

Once enjoying sky-high valuations, ad tech assets retreated significantly through the year. AAPL's IOS changes introduced in 2021 affected perceived ROIs on platforms significantly. At the same time, tiktok, AAPL, AMZN, UBER and others entered in the high margin ad business intensifying the battle for ad dollars. One of the USPs of digital ad platforms is advertisers' ability to quickly turn on and off their ad campaigns. This technology made the businesses succeed in previous recessions when they were still relatively small. Digital ads now make up about 70% of US ad budgets and the sector was bound to be affected in a downturn of any magnitude. Hence, as soon as macro showed signs of weakness and ROIs did not measure up, advertisers started pulling ad dollars and as expected, investors acted before them.

We believe that although pandemic era valuations were excessive, digital is the only channel through which global audience can be reached and will remain so for foreseeable future

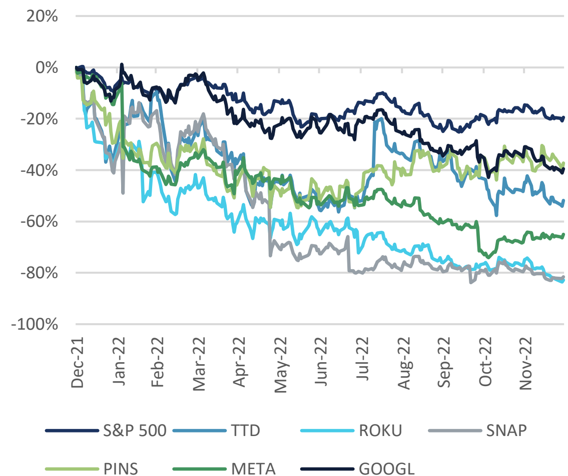
Pandemic has permanently increased reliance of advertiser on digital channels as they are the only means to reach to their audiences globally. Whilst pandemic era eCPMs might not be maintained in near term, overall ad spend on digital channels will continue to increase in medium to longer term with US taking lesser share of global digital ad market. The next phase of growth should come from the rest of the world. Hence, platforms which can provide advertisers reach to younger audiences around the world should come out as winner on the other side of upcoming recession.

While sector is exposed to recession and weakness in consumer spending, opportunity has opened as a few companies are now being traded at undemanding valuation

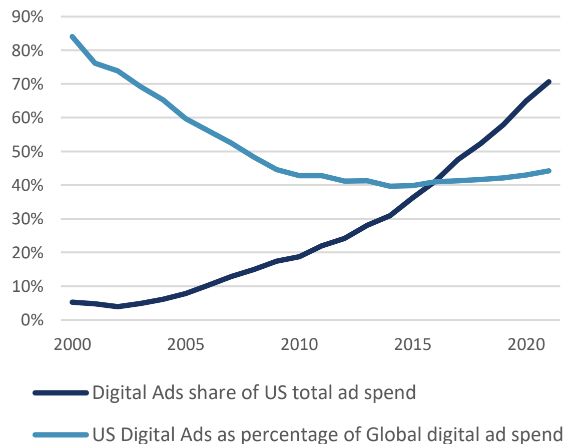
We think SNAP is a bargain trading under 15bn. Other than Meta, SNAP has become the only investible social network after twitter going private. It is a fairly large network with over 360m users worldwide of which 100m are in US. It has strong growth momentum in India and most of its users belong to the prized generation Z. It is no longer burning significant cash and is using its 4.4bn cash to buyback its stock and reduce the dilution impact from stock-based compensation. Although execution will be a challenge in a competitive environment, possible returns from holding SNAP compensate well for the risks. We have a TP of USD 30 per share, 3x current price.

We also like TTD in this space owing to its technology and position in the digital ad value chain. It faces very little competition, and its revenue is driven by ad budgets rather than eye-balls. We think buying opportunity in this scrip will present itself in near future as weakness in ad space starts showing in the numbers of large advertisers and impact TTD

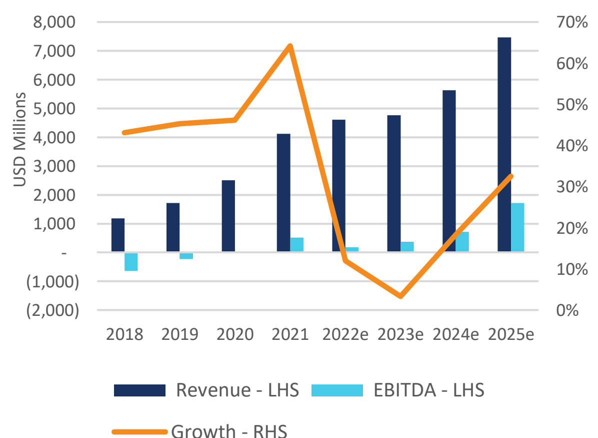
Relative performance



Digital ad spend constituted over 70% of US ad spend according to Magna



Next phase of growth to come from emerging markets



US APPAREL RETAIL & SPECIALTY RETAIL

Slowing sales and rising credit card interest rates threaten consumer spending optimism in 2023

Retail sales are estimated to grow 10% YoY and 32% over 2019 in 2022. Clothing and accessory sales held up well growing 5% YoY. However, sales have slowed materially and declined 2% YoY in November. The average APR on credit cards has jumped to 19.77% in December versus 16.17% in Q1. Consumer spending will slow even further if federal reserve achieves its projected 4.6% unemployment rate in 2023. Therefore, we're short multiple consumer names heading into 2023.

Inventory shortages turned into inventory gluts

Easing supply chains and slowing demand has turned inventory shortages into a glut, forcing retailers to offer deep discounts. In our universe of retailers, 81% reported a YoY decline in EBIT margin in Q3 2022. EBIT margin on average was still 191 basis points higher than 2019 levels suggesting further downside.

Dillard's (DDS) has over earned in the past 3 years and presents a short opportunity

Dillard's was an unlikely winner of 2022 because of excellent inventory management and strength in its home regions Texas and Florida. Its EBIT margin has expanded from 2.5% in 2019 to 15% in 2022. While we appreciate Dillard's inventory management, these margins are unsustainable. There's a severe markdown risk due to too much inventory elsewhere. We believe the EBIT margin will settle below 10% and expect normalized EPS under $20.

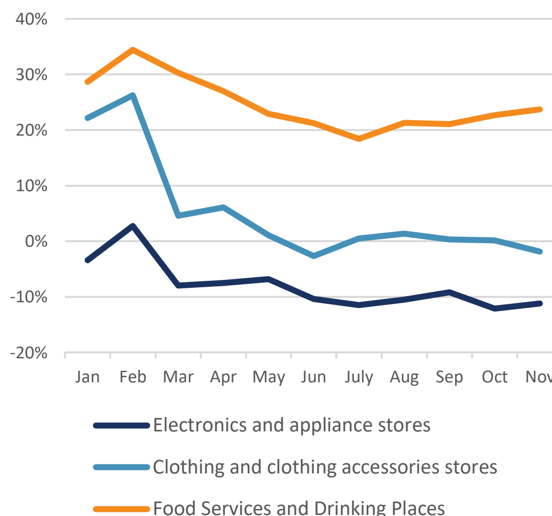
Capri Holdings (CPRI) owns a powerful brand in Versace and realizing its full potential provides an avenue for a cyclical growth and multiple expansion.

We like their strategy of margin preservation and protecting brand equity. Reopening of Chinese economy is a tailwind that will offset weakness in other regions. The stock currently trades at 8x forward PE, much lower than our target price of $76.

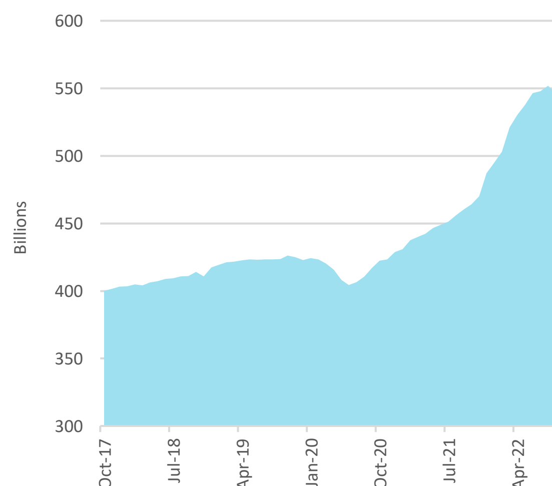
Children's Place's (PLCE) recession resilient product category makes it one of our top picks

PLCE has right sized its store base by closing ~30% of its stores since 2019 and has an E-commerce penetration of ~50%. However, inventory days at the end of October were 45% higher than normalized levels, suggesting lower margins in the next few quarters. Our price target of $57 is based on a normalized EPS of $6.5.

Retail sales select categories YoY Change %



Retail Inventories ex Autos



Credit Card Interest Rates %

RESTAURANTS

From Structural to Unsustainable

After declining 13% in 2020, Restaurant sales grew by 33% and 15% in the last two years, respectively. Seemingly, sales have not only recovered from lockdowns but also thrived in a post-covid economy. While growth in 2021 was structural, buoyed by reopening and excess savings, 2022 has seen nominal growth which is cut down by half to 7% if adjusted for inflation – against 28% real growth in 2021. Rampant inflation led to menu prices rising by 8% YoY to tackle food, energy and labor costs. Average wholesales food costs have outpaced menu price actions, by as much as 9%, since Feb'22. As sales grow, industry margins are starting to give way, with sector-wide EBIT margins down 300 bps YoY in Q3. Full-service operators like Darden Restaurants, Inc. (DRI) with EBIT margin down 800bps YoY, have felt more pain than franchise operators, although franchisees are increasingly stressful of the environment. Surveys by National Association of Restaurants show that footfall is continually declining, and same-store sales are lagging as inflationary pressures eat into incomes.

	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22
Revenue	26,515	30,179	31,289	31,922	31,141	32,830	33,020
EBIT - Adjusted	5,176	6,807	6,918	5,809	5,698	6,668	6,435
EBIT Margin	19.5%	22.6%	22.1%	18.2%	18.3%	20.3%	19.5%

*From Company accounts of 30 U.S. listed restaurants, both self and franchise operators

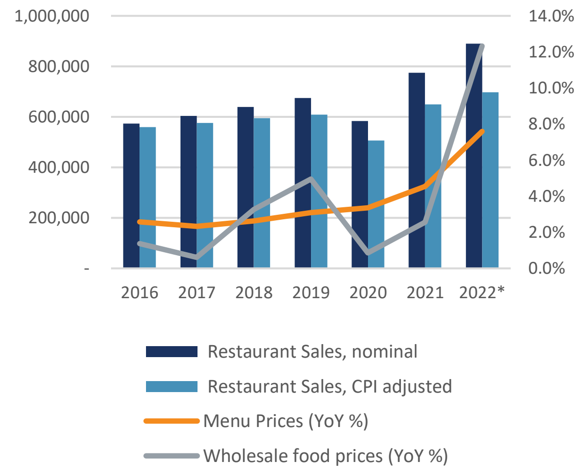
Cost pressures not abating as labor shortage pushes wages higher

Restaurants have been unable to fully recover the jobs lost due to Covid-19. Increasing wages has been the only viable way to attract workforce. As wages, along with high energy and food costs persist, we expect restaurant margins to further erode. Declining footfall and slowing same-store sales growth are likely to creep even lower and persist in the next year.

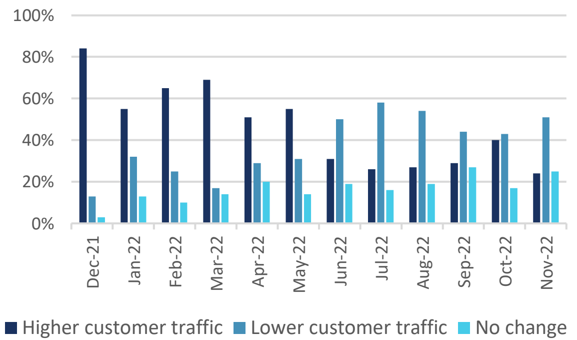
Peak Sales, Peak Valuations?

Considering potential downside, the sector faces as inflationary sales growth start to taper off, we believe the sector's lofty valuation is unwarranted. Quick-service is currently trading at 28x P/E, full-service at 16x, against S&P 500 P/E of 17.5x. We see considerable downside in high-ticket operators like Darden (DRI), high growth plays like Wingstop, Inc. (WING) and a combination of both in Chipotle Mexican Grill, Inc. (CMG).

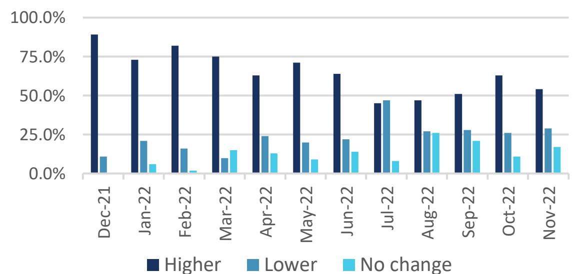
Inflationary pressure paint a rosy picture of outperformance



Restaurant footfall continues to slide as cost bites into wallets



Restaurant operators' same-store sales growth trending down



Company	Current Price	Target price	Upside	Market Cap (Mn)	Enterprise Value (Mn)	2023 EPS	2023 PER	2023 EV/EBITDA
CMG	1,387	1,000	(28)%	38,780	38,420	39	36	22
DRI	138	90	(35)%	17,140	17,675	6.4	22	15
WING	137	70	(49)%	4,120	4,660	1.71	80	47

USD

TRAVEL & TOURISM

Travel momentum eyes bumps

Robust travel momentum that built up in 2022, as a formulation of revenge travel and excess liquidity, might start to see its wheels slow-down in the coming year. With the economy slowing down, we expect a noticeable preference of cheaper travel in the consumer behavior.

Travel stimulants in the form of international reopening and increased workplace flexibility will continue to exist in the system. However, overall weak consumer spending should overshadow the operational mettle of travel companies.

Online Travel Agencies | Cheap Accommodation in spotlight

Online travel agencies which had a super 2022, might be looking at a challenging year ahead. We see a greater proportion of travelers on the lookout for cheaper accommodation and avoiding unnecessary stays in short term rentals/hotels. This may adversely impact accommodation occupancies and ADRs.

While ADR tailwinds may dissipate, OTA's continue to experience some favorable booking trends ahead. Moreover, on back of strong operational models and solid organic growth potential, we expect the leading OTA's to defend well against macro headwinds in the coming year.

Airlines | Low-cost airlines – rising popularity

While we acknowledge the strength in air travel demand arising from continued international reopening and increased working flexibility, we believe an economic slowdown will crack into these demand shields.

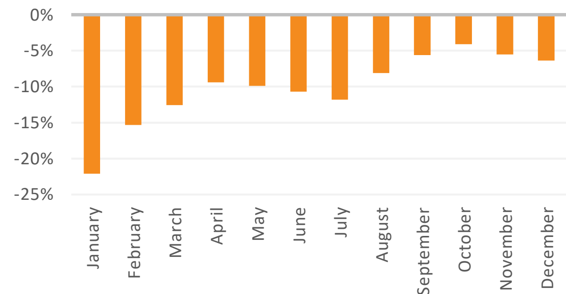
Additionally, we expect to see a demand shift towards low-cost airlines as macro-economic pressures steer travelers to spend more conservatively. Furthermore, weak consumer sentiment may induce cuts in unnecessary travel along with a low preference for premium seats.

Cruise lines| Debt Hostages

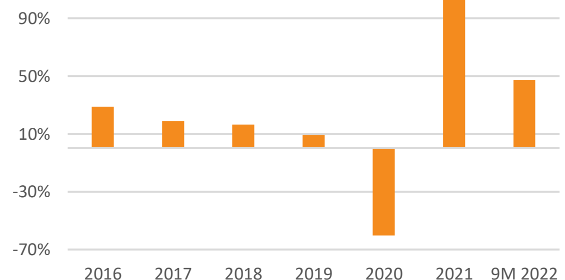
While we foresee cruise lines to continue their operational recovery both in the form of occupancies and ticket prices, they are largely weighed down by massive debt accumulated in the past 3 years. The 3 biggest listed cruise companies have a combined market cap of $28bn while they carry a consolidated net debt of $65bn.

Average debt repayment by CCL, RCL, and NCLH in 9M 2022 vs 9M 2019 grew by 348%. We believe, this debt will continue to hang over their profitability ahead, even as they complete their recovery.

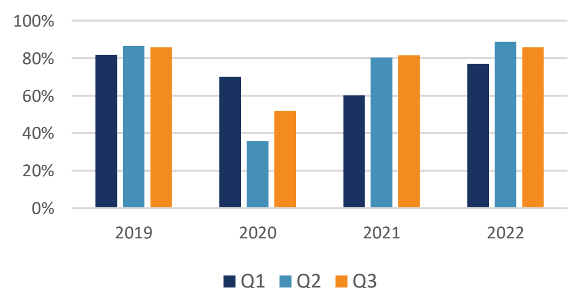
US - TSA Traffic Numbers Change 2022 vs 2019



ABNB, BKNG, EXPE combined gross booking value yoy growth



All US Carriers - Load Factors % (bts data)



Post-Pandemic Debt Levels - Waiving a Red Flag

$Mn	CCL	RCL	NCLH
Net Debt 2019	10,984	9,357	6,549
Net Debt Current	29,718	22,381	12,719
EV 2019	41,819	37,804	18,995
EV Current	39,708	34,991	17,879

TRAVEL & TOURISM

Top picks:

Airbnb | Long: The leader of short-term rentals, stands on a strong brand value, operational resilience, and a massive runway with an expected next 5-year GBV growth CAGR of 21%. This paves way for a 5-year EPS growth CAGR at 19%. We expect an adjusted EPS of $3.2 in 2023 and $4.9 in 2024. With a TP of $140, we are overweight in ABNB, currently looking at an upside of 65%.

Carnival Corp| Short: The biggest listed cruise line company with a troubled balance sheet stands with a net debt of $30bn and an EV of $40bn. CCL debt repayments ballooned to $1.6bn in FY 2022 marking a 681% increase against FY 2019 levels, making it equivalent to 29% of their record EBITDA and 51% of their record net income. To make it worse, the company still hasn't recovered operationally to pre-pandemic levels, as the company still stands with suppressed load factors and ticket yields. With a net loss expected next year, company has a forward EV/EBITDA of 11x. We are short on CCL as we believe the company's debt stress could potentially exert more pressure on its financing & lead the company to issue more equity to keep itself afloat.

Company	Current Price	Target price	Upside	Market Cap	EV	Forward P/E	Forward EV/EBITDA
Airbnb	86	140	65%	54bn	47bn	26	20
Expedia	88	125	44%	14bn	16bn	16	7.5
CCL	8	$4	-50%	10bn	40bn	-	11

CLOUD

Cloud growth to contract

The second half of 2022 saw softening of demand for Cloud Service Providers (CSPs), a trend that we foresee continuing into the next year. With the looming risk of macroeconomic slowdown, we expect companies to become increasingly defensive about cloud spending and broader IT budgets. According to our estimates, growth in cloud services will slow down from 27% in 2022 to 20% in 2023 with total spending reaching north of $600 billion. On the customer acquisition front, this should translate into longer sales cycles and a slower pace of cloud adoption. The agility of cloud businesses allows their customers to conveniently scale down their consumption by moving non-critical workloads off the cloud. Market leaders are expected to fortify their positions, aided by extensive costs associated with switching cloud providers.

Normalization of cloud infrastructure

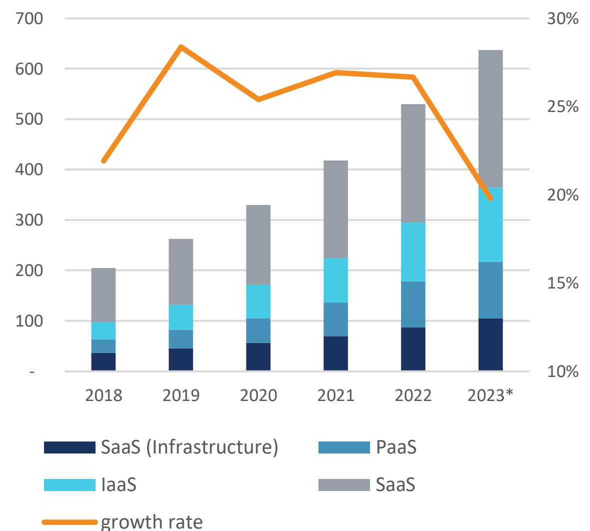
2022 was a great year for cloud infrastructure without any weakness in demand. For 2023, we expect networking equipment manufacturers to see strong demand and normalization of backlog levels as the ongoing shortage of components eases. 5% growth in total capital expenditures by big technology spenders indicates industry-wide plans for expansion, which creates organic growth opportunities for cloud infrastructure providers. Demand dynamics for multi-tenant data center (MTDC) operators will sustain, fueling strong top-line growth during the coming year. Business models are based on fixed contracts, making them less agile than cloud service providers. These data center operators are inherently debt-heavy, subjecting them to increasing interest expenses. With cooling demand, we expect the recent uptick in data center subleasing activity to taper off within the year.

Key Risks

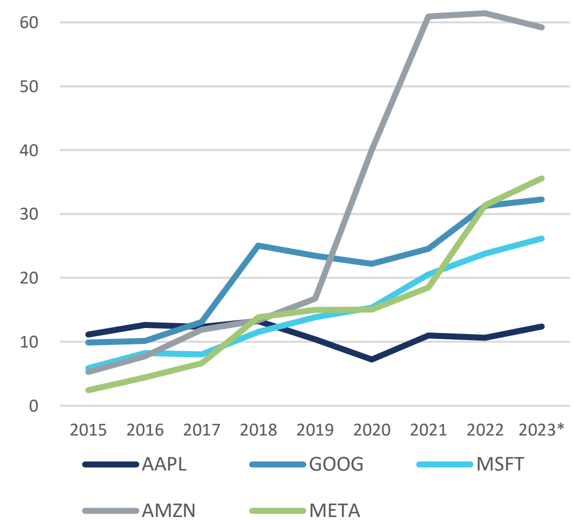
- Higher than expected slow down in cloud spending due to prolonged macroeconomic uncertainty.
- More competition will drive down prices.
- International business makes cloud companies prone to currency fluctuations and regulation

We currently have a neutral stance on Cloud, but current prices remain slightly inflated. We therefore wait for more valuation compression before entering a position

Cloud slow down, $bn in revenues



Hyperscale Capital Expenditure, $bn



Company	Current Price	Target price	Upside	Market Cap (Mn)	Enterprise Value (Mn)	2023 EPS	2023 PER	2023 EV/EBITDA
DOCN	25.5	21	-18%	2,453	3,051	0.85	30	15
OVH (EPA)	€ 16.10	€ 12	-24%	€3,045	€3,707	€0.49	33	10
AKAM	84.3	71	-16%	13,256	14,923	5.45	15	10
ANET	120.9	141	17%	36,947	33,603	4.87	25	17
NET	42.8	47	10%	14,857	14,649	0.38	114	60

Vitality Capital LLC is a New York based investment fund which primarily invests in equities to generate returns. Vitality was formed in 2019 with the objective of generating long term gains through fundamental research. Our team comprises of 10 research analysts including 3 Chartered Financial Analysts (CFAs), honing collectively over 40 years of core fundamental research experience and over a decade in portfolio management. Our investment strategy is based on fundamentals driven idea generation and includes sector analysis and financial modelling. We have investments in over 6 countries across various sectors.

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