

SEPTEMBER 8, 2020

Today's Morgan Stanley Research

Morning Meeting Summary - North America

Below are summaries of select research reports discussed in Morgan Stanley's Morning Meeting.

FOUNDATION: Airlines | Ravi Shanker

MS Research Analyst Ravi Shanker is initiating coverage of US Airlines with an Attractive industry view. His coverage includes (in order of preference) OW-rated Southwest Airlines (LUV), JetBlue Airways (JBLU), Delta Airlines (DAL) and Allegiant Travel (ALGT); EW-rated Alaska Air Group (ALK); followed by UW-rated United Airlines (UAL). Ravi recognizes that demand recovery is the key debate in a post-COVID world and expects a relatively quick rebound in traffic – he sees air travel demand (Revenue Passenger Miles – RPMs) returning to pre-COVID levels on a run-rate basis by late 2021/early 2022 (vs. consensus 2023/2024). However, Ravi expects significant turbulence during the recovery and recognizes the need to be selective with his stock picks. His preference reflects this barbell approach and is biased toward low cost carriers (LCCs) and ultra-low cost carriers (ULCCs) vs. Legacies (with the exception of Delta, which is arguably the highest-quality Legacy airline franchise, and also checks most of those boxes). Ravi's Attractive industry view is built on the following key pillars: 1) demand, 2) supply, 3) balance sheets/cost actions, and 4) valuation. Additionally, Ravi is looking at long-term structural themes around ESG and secular disruption. Please refer to the full note or research portal for PTs. [Airlines: Into the Distance, A Ribbon of Black: Initiating Coverage With An Attractive View \(8 Sep 2020\)](#)

FOUNDATION: Aerospace | Kristine Liwag

MS Research Analyst Kristine Liwag analyzed the commercial aerospace backlog on an individual airline basis and compared each airline's existing aircraft fleet age and its corresponding order book. Her main takeaway is that only about 20% of the current order book is for replacement, significantly below the industry heuristic of 40%. Increased risk of cancellations provides significant downside risk to new aircraft production in the next few years. Kristine estimates that there is \$73bn downside risk to Boeing's revenue in 2020-2025. She initiates coverage of BA (\$181 PT) and SPR (\$18 PT) at UW given the underappreciated risks regarding 737 MAX orders. Her UW is on a relative basis as she sees better opportunity in the aftermarket. Due to the downside risks to new aircraft production, Kristine has a Cautious industry view on Aerospace. Separately, Kristine sees rebounding air traffic a positive for the aftermarket, and initiates coverage on TDG (\$772 PT) and RTX (\$89 PT) at OW. Finally, Kristine expects aircraft production to lag air traffic growth, providing downside risk to consensus on OE revenue, as some airlines focus on liquidity and reduce capex. An aircraft order book skewed for growth vs. replacement could mean higher cancellations as airlines rightsizes. [Aerospace: A Bearish View on New Aircraft Production, Cautious Outlook on Aerospace \(8 Sep 2020\)](#)

FOUNDATION: Defense | Kristine Liwag

MS Research Analyst Kristine Liwag is initiating coverage of Defense with an Attractive industry view. U.S. military superiority is no longer guaranteed according to the Department of Defense. Hence, she expects Defense Investment Accounts to grow regardless of political control. Adjusting for purchasing power parity and U.S. involvement in the Middle East, China spends more money on Defense than the U.S. This dynamic is largely underappreciated by the market and can provide downside protection for Defense primes' top line in the next few years as the U.S. must keep pace to remain competitive. Going into the elections, the two likely scenarios Kristine expects are Scenario 1 (base case) Keeping Up with the Neighbors and Scenario 2 (bull case) Speak Loudly and Carry a Big Stick. Both scenarios provide more upside risk than downside risk for LMT (OW, \$509 PT), NOC (OW, \$470 PT), and LHX (OW, \$248 PT) at current prices. Kristine favors Defense companies that benefit from the realignment of U.S. priorities as it emerges from "strategic atrophy" to a restoration of U.S. competitive edge and initiates coverage on LMT, NOC, LHX, TXT (EW, \$45 PT), and GD (UW, \$163 PT). [Defense: Defense Is Attractive Despite Uncertainty from Elections \(8 Sep 2020\)](#)

IDEA: Global Macro Briefing | Chetan Ahya

MS Chief Global Economist Chetan Ahya notes how the V-shaped recovery is playing out faster than he originally thought. Chetan now expects a faster return to pre-Covid-19 output: specifically, he sees the global and DM economies returning to pre-Covid-19 levels a quarter ahead of his original forecast (by early 4Q20 and 3Q21). The US will achieve pre-recession output levels in six quarters (i.e., by 2Q21) versus the 10 quarters it took during the global financial crisis (in = earlier forecasts the US economy reached pre-Covid-19 levels by 4Q21). The outlook for Covid-19's impact on the economy has changed

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dramatically, with most large economies able to lift economic activity to much higher levels despite the ongoing virus spread. The medical community continues to make good progress in the fight against Covid-19, and treatments and vaccines are on track for availability in the next couple of months. Finally, since the virus is an exogenous shock, policy-makers continue to provide aggressive support as there are no serious moral hazard concerns this time. The quick recovery since May means that the global economy will reflate faster. As the forces that drive inflation higher continue to align, Chetan now sees a stronger case for his call that inflation will re-emerge in DMs, particularly the US, in a different manner from the last three cycles. [Global Macro Briefing: A Sharper V \(7 Sep 2020\)](#)

IDEA: US Economics | Ellen Zentner

Bringing on board the expectation of MS public policy strategists around CARES 2 raises the GDP growth profile significantly over MS Chief US Economist Ellen Zentner's forecast horizon. Ellen now sees GDP growth on a full year-over-year basis at -3.4% in 2020 (vs. -5.3% previously) and +6.4% in 2021 (vs. +3.4% previously). On a 4Q/4Q basis, 2020 GDP growth is now 4.7pp higher than previously forecast at -1.5%, while 2021 is 2.2pp lower at +5.8% – accounting for the front-loaded fiscal support that is expected to expire at the end of this year. Taking on board a larger fiscal package, and alongside a faster-than-expected pace of recovery in both aggregate demand and the labor market in recent months, Ellen now expects real GDP to reach pre-Covid-19 levels in 2Q21, two quarters earlier than previously anticipated. Concurrent with a speedier economic recovery has been a speedier return to work. In August, the unemployment rate dropped below Ellen's year-end forecast and she now expects it to reach 7.6% by the end of this year, with continued, albeit slower improvement in 2021 to end the year at 5.5%. As price disruptions around Covid-19 unwind and aggregate demand has accelerated, incoming data on inflation have continued to confirm her out-of-consensus call for core PCE to end this year at 1.6% on a 4Q/4Q basis. Additionally, on a calendar year basis, she sees the fiscal deficit totaling 24% of GDP in 2020 and 13% of GDP in 2021. [US Economics: Outlook Refresh: A Faster Return \(7 Sep 2020\)](#)

US Equity Strategy | Mike Wilson

MS Chief US Equity Strategist Mike Wilson notes how most are aware of the significant call buying that led to the August rally and last week's sharp decline in tech stocks. Mike thinks the trigger was fundamental in nature as the market began to contemplate higher back end rates as fiscal stimulus passes, the economy continues to reopen and the election is decided. Additionally, he points to how the summer rally was more about earnings revisions than multiple expansion. Falling back end rates helped but were only able to keep P/Es flat for the S&P 500 while the average stock saw P/Es compress. Mike recommends to pick stocks where NTM EPS estimates are likely to increase more than 10% over the next 3-4 months. He continues to believe the best hunting grounds for such stocks are smaller companies levered to a further reopening of the economy. History says there may be a small bounce in the next week or two but it comes with higher vol which elevates the risk. Longer term higher volatility pauses the feedback loop of speculation and systematic flows driving upside in NDX while upside catalysts (more fiscal stimulus, a clearer path to re-opening, and higher rates) mean fundamental momentum should shift to other parts of the market. [US Equity Strategy: Weekly Warm Up: Big Drop Signals Changing Dynamics \(8 Sep 2020\)](#)

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Rating, Price Target, and Estimate Changes

Ticker	Name	Rating	Change	Mcap(\$mm)	Share Price	Price Target		'20 EPS for Cons.		'21 EPS for Cons.	
						Current	Previous	Current	Previous	Current	Previous
ALK.N	Alaska Air Group Inc	Equal-Weight	Initiation	-	40.82	46.00	-	-	-	-	-
ALGT.O	Allegiant Travel	Overweight	Initiation	-	133.65	175.00	-	-	-	-	-
ARGX.O	argenx SE	Overweight		10,008	218.28	281.00	281.00	(10.77)	(10.82)	(10.63)	(10.69)
ASND.O	Ascendis Pharma A/S	Overweight		6,679	140.34	179.00	179.00	(6.40)	(6.44)	(6.16)	(6.20)
BA.N	Boeing Co.	Underweight	Initiation	96,549	171.05	181.00	-	-	-	-	-
CPB.N	Campbell Soup Co	Equal-Weight		14,496	47.58	53.00	53.00	2.95	2.98	2.94	2.94
DAL.N	Delta Airlines, Inc.	Overweight	Initiation	-	31.77	50.00	-	-	-	-	-
DBVT.O	DBV Technologies SA	Equal-Weight		208	2.00	2.00	2.00	(3.37)	(3.39)	(2.89)	(2.91)
RACE.N	Ferrari NV	Overweight		35,653	191.74	265.00	265.00	3.24	3.26	4.60	4.62
GD.N	General Dynamics Corp.	Underweight	Initiation	43,528	151.70	163.00	-	-	-	-	-
GLPG.O	Galapagos NV	Equal-Weight		3,770	123.04	158.00	158.00	(1.42)	(1.42)	(3.12)	(3.14)
GMAB.O	Genmab A/S	Overweight		2,304	35.02	32.00	32.00	10.42	10.45	5.30	5.32
JBLU.O	JetBlue Airways Corp.	Overweight	Initiation	-	12.13	16.00	-	-	-	-	-
JMIA.N	Jumia Technologies AG	Equal-Weight		665	8.47	11.50	11.50	(2.35)	(2.37)	(2.15)	(2.17)
LHX.N	L3Harris Technologies Inc	Overweight	Initiation	39,289	181.73	248.00	-	-	-	-	-
LMT.N	Lockheed Martin Corp	Overweight	Initiation	107,629	385.02	509.00	-	-	-	-	-
LUV.N	Southwest Airlines Co.	Overweight	Initiation	-	39.39	54.00	-	-	-	-	-
NOC.N	Northrop Grumman Corp.	Overweight	Initiation	56,521	339.03	470.00	-	-	-	-	-
RTX.N	Raytheon Technologies Corp	Overweight	Initiation	93,447	61.17	89.00	-	-	-	-	-
SPOT.N	Spotify Technology SA	Overweight		46,132	248.21	275.00	275.00	(3.72)	(3.74)	(1.39)	(1.40)
TDG.N	TransDigm Group Inc.	Overweight	Initiation	27,283	503.32	772.00	-	-	-	-	-
TFII.N	TFI International Inc	Overweight		3,873	43.69	48.00	48.00	2.87	2.86	3.38	3.37
TXT.N	Textron Inc.	Equal-Weight	Initiation	8,880	38.94	45.00	-	-	-	-	-
UAL.O	United Airlines Holdings, Inc.	Underweight	Initiation	-	38.21	37.00	-	-	-	-	-
ULTA.O	Ulta Beauty Inc	Equal-Weight		13,590	240.51	240.00	225.00	3.90	4.81	9.90	9.92
ZEAL.O	Zealand Pharma A/S	Overweight		1,284	35.80	43.00	43.00	(2.85)	(2.86)	(3.07)	(3.08)

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Company/Industry

General Dynamics Corp.: Gulfstream: A Premium Product, but Not a Premium Multiple; Initiate at Underweight

S&P Global Inc: Issuance Down 11% QTD as Corporate Has Strong August, But Structured Lags

ON Semiconductor Corp.: CEO change: Our top 5 things to focus on

Vital Farms Inc.: 2Q20 Preview: Healthy Growth

Ulta Beauty Inc: Expecting a Slow Recovery; Raise PT to \$240 & Stay EW

Freight Transportation: Fast Lane: AMZN Purchases Boeing 767, DOT Sees Trucking Taking Share, "Platformization" Headwinds

Resurface, PE Firms submit second KSU Bid, LTL Tonnage Updates, August Class 8 Orders

US Election: The Waiting Is the Hardest Part

Semiconductors: Context around potential US government actions vs. SMIC

Global Asset Managers: Navigating the New Normal

Energy Credit Research: Apache Corp (APA): Initiating Credit Coverage - Constructive View, But Prefer OXY

Oil Services, Drilling & Equipment: Weekly Market & Industry Data

Airlines: Into the Distance, A Ribbon of Black: Initiating Coverage With An Attractive View

Defense: Defense Is Attractive Despite Uncertainty from Elections

Aerospace: A Bearish View on New Aircraft Production, Cautious Outlook on Aerospace

Chemicals: PE Production/Trade Data; Ethane Sharply Lower; Chemical Chains Update

Specialty Retail & Dept Stores: Greenberger's Look at the Mall (GLAM): Labor Day Weekend Was Just Not The Same

Chemicals: Urea Softens; Phosphates Rise ex-US; Brazil Potash Up; Soy Crush Mixed

Global Healthcare: Growth & Margin Comps: September 2020

Biotechnology: COVID-19 Outbreak Dynamics - Daily Update Vs Our Model

REITs: Can't Win for Losing

Global Healthcare: Global Plasma Tracker September 2020

Global Healthcare: Plasma Collection Tracker

Strategy/Economics

CIO Brief

EM Quant Strategy: EMFX Quant's Lab: EMFX Momentum Decelerating

Global Macro Strategy: G10 FX Chart Pack

Global Macro Briefing: A Sharper V

Morgan Stanley FX Positioning Tracker

Quantitative Equity Research: A Quant's Take: August 2020 Highlights

US Equity Strategy: Weekly Warm Up: Big Drop Signals Changing Dynamics

US Economics: Outlook Refresh: A Faster Return

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