EQUITY RESEARCH

RBC Capital Markets

U.S. RESEARCH AT A GLANCE

August 17, 2018

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Priced as of prior day's market close, EST (unless otherwise noted).

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RBC Capital Markets

Price Target Revisions

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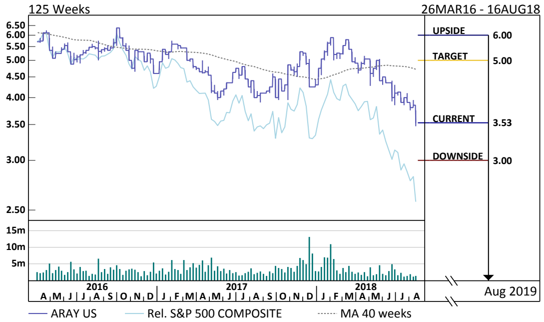

	Revenue	Prev.
2017A	383.4	
2018A	404.9↑	398.4
2019E	420.4↑	419.3
2020E	438.7	

All values in USD unless otherwise noted.

Accuray Incorporated (NASDAQ: ARAY; 3.53)

Published August 17 2018 00:45 EDT

Rating: Sector Perform
Price Target: 5.00 ▼ 6.00

Mixed F4Q18 Results; FY19 Guidance Is Fine, but CFO Is Departing

Management has made progress with order-to-revenue conversion. However, the company has fallen short of its previous profitability targets and had to invest more to support topline growth. Accordingly, we lower our PT to $5. While downside in shares appears limited, we continue to look for a sustained inflection point in gross order and revenue growth before becoming more positive on the stock.

- **F4Q18 revenues better than expected but adjusted EBITDA falls short.** ARAY reported F4Q18 revenue of $113.8M (guidance: ~$104–109M, FCe: ~$108M), up 2% y/y. Services revenues of $59.2M (FCe: $51.1M), up ~15% y/y, drove the beat due to upgrades around treatment planning and connectivity software. Products revenues were $54.6M (FCe: $56.3M), down ~10% y/y. Adjusted EBITDA was $7.8M (guidance: ~$9–11M, FCe: ~$9.9M).
- **F4Q18 gross and net orders below consensus.** ARAY reported F4Q18 gross orders of $96.4M (+12% y/y), below guidance of ~$105M (FCe: ~$103M). Net age-outs in F4Q18 were ~$17.1M (guidance and RBCe: ~$20M) while cancellations were ~$14.4M (RBCe: ~$8M).
- **Management introduces reasonable FY19 guidance.** Management introduced FY19 revenue guidance of $415–425M (FCe: ~$411M), up ~2–5% y/y (RBCe: ~5%). Separately, management provided FY19 adjusted EBITDA guidance of $21–27M (FCe: ~$24M).
- **Downside limited, but we wait for signs of a more sustained inflection in gross order and revenue growth.** ARAY's shares have underperformed peers YTD, and valuation (<1x EV/2019 sales) remains depressed. We acknowledge that management execution on revenue growth is improving, U.S. commercial investments should begin paying off in FY19, and new technology is in the works (motion management 510(k) submission for Radixact expected by the end of September). However, we believe the CFO's unexpected departure for a private company (PROCEPT BioRobotics) is disappointing and may raise some investor questions regarding ARAY's longer-term growth profile.

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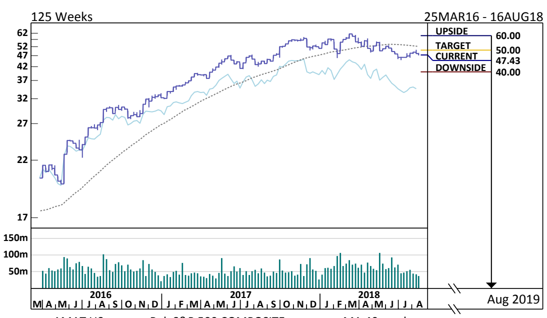

	EPS, Ops Diluted	Prev.	P/E
2016A	1.75		27.1x
2017A	3.25		14.6x
2018E	4.45↓	4.61	10.7x
2019E	4.45↓	4.77	10.7x

All values in USD unless otherwise noted.

Applied Materials, Inc. (NASDAQ: AMAT; 47.43)

Published August 16 2018 14:50 EDT

Rating: Sector Perform
Price Target: 50.00 ▼ 55.00

Long-term Model Update a Positive, Enough to Offset Near-term Weakness?

AMAT reported results that were solid for the Jul-qtr, however guidance was lighter than Street expectations. Positively, the Company is increasing its 2020 target model with expectations now calling for over $5.08 in EPS for 2020.

- **The Takeaway:** AMAT reported results that were solid in the quarter driven by slightly better than expected results in Display. Notably, guidance was light with the mid-point suggesting 96c in EPS vs. Street at $1.19. While the Company is calling for Q4 to be a trough EPS quarter, we think investors will continue to sit on the sidelines (near-term) until the memory environment improves. On the positive side, we emphasize that we are not long-term bears and believe the memory headwinds will abate which would create an attractive entry point (can re-enter when memory stabilizes). *Net/Net: overall, we view the print as a slight* *negative given that near-term dynamics have not improved. Positively, the 2020 outlook was notably bullish in our view which gives us confidence in an attractive entry point coming in the next ~1-1.5 months (8th/9th inning to make a baseball analogy). We adjust our price target to $50 (from $55).*

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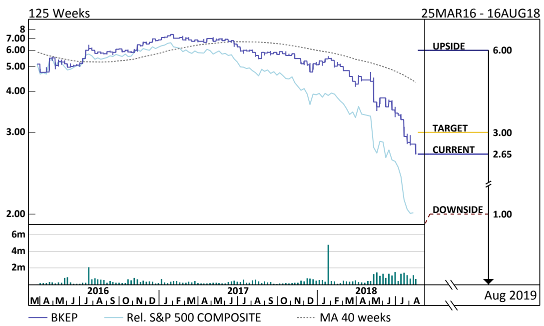

	DCF/unit	Prev.	P/DCF
2017A	0.48		5.5x
2018E	0.25↓	0.45	10.6x
2019E	0.39↓	0.62	6.8x
2020E	0.62↓	0.86	4.3x

All values in USD unless otherwise noted.

Blueknight Energy Partners, LP(NASDAQ: BKEP; 2.65)

Published August 17 2018 00:45 EDT

Rating: **Sector Perform**
Price Target: **3.00 ▼ 5.00**

Taking the local before hopping on the Cimarron Express

The recent ~45% distribution cut allows de-leveraging ahead of Cimarron Express. We think it takes time to stabilize & grow base business before a likely Cimarron drop early-2020. We expect cash flow rebounding 2019 with Cushing at inflection point and Oklahoma pipes filling, but story really reflects better from Cimarron accretion 2020+. Price target revision reflects lower EBITDA expectations on base business into 2019. Reiterate Sector Perform.

- **Re-positioning.** BKEP recently cut distributions by ~45%, which facilitates BKEP de-levering to sub 4.5x by YE19. By then, we think BKEP should be positioned to debt-fund the purchase of Ergon's 50% in the Cimarron Express JV; we expect this drop to be accretive as BKEP will buy at cost (we think ~$45mm net purchase price to BKEP) after the pipe has had a couple of quarters to mature.
- **Valuation.** We base our SOTP on 2020 est (2019 prior) in order to capture Cimarron Express. We also lower our asphalt multiple from 11x to 10x to reflect higher crude prices. Further, our overall target EV/EBITDA multiple shifts from 10x to ~9.5x as we incorporate more peak-level Cushing cash flow by 2020. Combined with our new cash flow forecast (and debt leverage about a turn higher than our previous expectations), we lower our price target from $5 to $3, which is close to current levels. *We would bias more to our upside scenario should Cushing volumes and rates firm up quicker than we currently expect.*

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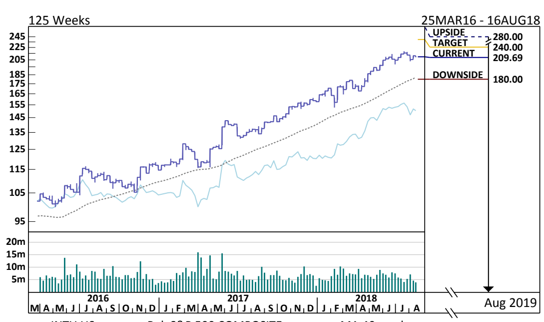

	Revenue	Prev.
2017A	5,177.0	
2018E	5,921.0	
2019E	6,677.0↑	6,507.0
2020E	7,390.0↑	7,026.0

All values in USD unless otherwise noted.

Intuit Inc.(NASDAQ: INTU; 209.69)

Published August 16 2018 21:07 EDT

Rating: **Sector Perform**
Price Target: **240.00 ▲ 190.00**

Deep Dive into FY19 Consumer Tax + F4Q18 Earnings Preview

The impact of tax reform on volumes / price mix coupled with new hybrid digital solutions makes for a very interesting consumer tax season next year (yes...we just said that). We see growth coming in ahead of consensus estimates and raise our estimates. We also raise our price target as we roll forward to end CY19. Maintaining Sector Perform on valuation.

- **Deep dive into consumer tax:** FY19 is setting up to be an interesting year given tax reform's impact on unit volume share shifts and price mix, coupled with more digital hybrid solutions (e.g., TurboTax Live) in market.
- **We see upside to consumer tax estimates:** Our analysis suggests upside to the current consensus estimate of ~7% FY19 growth for consumer tax. Our work suggests an outcome in the 8–13% Y/Y range. As a result, we increase our consumer tax growth assumption to 10% (middle of the range).
- **Thoughts on the stock:** We are slightly ahead of consensus starting in FY19 (RBC Rev/EPS of $6.68B/$6.70 vs. consensus of $6.54B/$6.50), but we maintain our Sector Perform rating given that our estimates are only LSD above consensus, the company may choose to re-invest revenue upside (as it did in FY18), and valuation is above the 5-year average (although what's not in software land?).

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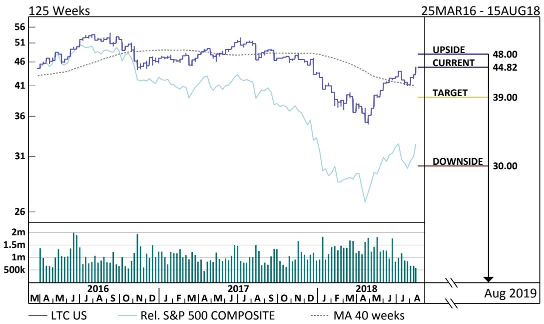

	FFO/Sh, Rpt Diluted	Prev.
2017A	3.09	
2018E	3.00↓	3.02
2019E	3.09	
2020E	3.24	

All values in USD unless otherwise noted.

LTC Properties, Inc.(NYSE: LTC; 44.82)

Published August 16 2018 11:39 EDT

Rating: **Underperform**
Price Target: **39.00 ▲ 38.00**

Headwinds are still impacting tenants; raising PT to reflect external growth upside

The shares still trade at a premium, but given our concerns, we believe the name should trade more in line with peers. The SNF coverage ratios have significantly dropped over the past few years, and now reflect the sector median. We are also tracking three operators that are working to stabilize completed developments. Our rating is unchanged, but our new target is $39/share to reflect external growth upside.

- The company leases properties to multiple operators that have run into issues with other REITs in the space. LTC's properties have not been immune to these headwinds, and the weaker results have been reflected in the underlying coverage ratios.
- The company has made progress in our view leasing-up the recently completed development projects. However, three operators still remain in focus including Anthem, Thrive, and Frontier.
- The company has been focused on market transactions with longer lead-times over the past several quarters, but noted, it is starting to see a few more marketed transactions that may actually fall into its price point.
- We are lowering our 2018 Reported (company-defined) FFO estimate to $3.00/share from $3.02/share and maintaining our 2019 and 2020 estimates at $3.09/share and $3.24/share, respectively.

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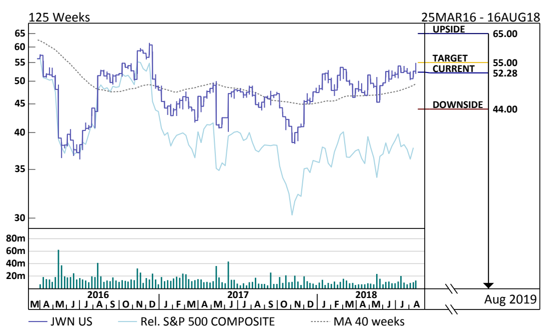

	Revenue	Prev.
2016A	14,758.0	
2017A	15,478.0	
2018E	15,931.0↑	15,659.0
2019E	16,431.0↑	16,363.0

All values in USD unless otherwise noted.

Nordstrom, Inc.(NYSE: JWN; 52.28)

Published August 16 2018 20:20 EDT

Rating: **Sector Perform**
Price Target: **55.00 ▲ 49.00**

Nice Comp Acceleration Coupled With Margin Boost from Timing Shift

JWN reported very solid Q2 earnings with a notable acceleration in comps and nice margin improvements (partly helped by timing). We are particularly encouraged to see that outsized ecomm growth and improvements in off-price led to the best comp in 3 years. Although we acknowledge that timing shifts will likely negatively impact 2H, we expect underlying comp and merch margin improvement to be sustained.

- Updating our thoughts and estimates following Q2 earnings.
- Raising price target to $55 from $49

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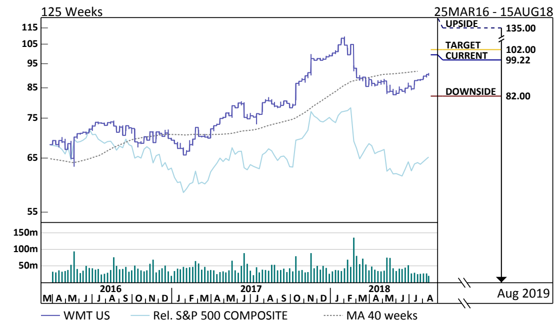
Walmart Inc.(NYSE: WMT; 99.22)

Published August 16 2018 13:46 EDT

Rating: **Sector Perform**
Price Target: **102.00 ▲ 90.00**

Impressive 2Q, but investments will continue and WMT has already re-rated



	Revenue	Prev.
2017A	499.9	
2018E	515.5↑	511.2
2019E	531.4↑	527.2
2020E	547.8	

All values in USD unless otherwise noted.

WMT surged following the company's strongest US comp in 10 years (+4.5%). Margins continue to decline from further investments (pricing, labor and technology) and these costs won't go away any time soon, but $s can grow through leverage. We remain on the sidelines, as 20x for flattish EBIT seems expensive, but given Wamart's improvements, we are looking for an opportunity to become more constructive.

Walmart US posted comp growth of 4.5% (ex-Fuel) vs. our 2.0%E and investor expectations of ~2.5%-3.0%, as traffic increased 2.2% (vs. our +1.1%E) and ticket jumped 2.3%, without meaningful inflation. Better weather boosted results in some categories (mostly General Merchandise), sales momentum was broad-based, and monthly performances did not vary substantially. Further, while e-commerce contributed a very healthy 100 bps to comp (primarily to traffic), **our biggest takeaway is that the core store-level business generated an impressive +3.5% comp.** E-commerce sales continued to accelerate (+40% vs. +33% in 1Q and +23% in 4Q), thanks to improved price positioning and the expansion of click and collect Grocery. The company continues to target 40% growth for CY18. Further, Grocery (~55% of sales) posted a MSD comp gain, which was its strongest result in ~9 years and, we suspect, near MSD growth should be sustainable in 2HCY18 given price investments and presentation improvements. Sam's Club (+5.0% comp vs. our 3.3%E) and International also beat expectations; see page 3 for more on these. We are lifting our 2018 EPS estimate to $5.02 from $4.92 due to today's beat. Our PT goes to $102 from $90 as we raise our target multiple to 20x from 18x based on improved sales trends.

First Glance Notes

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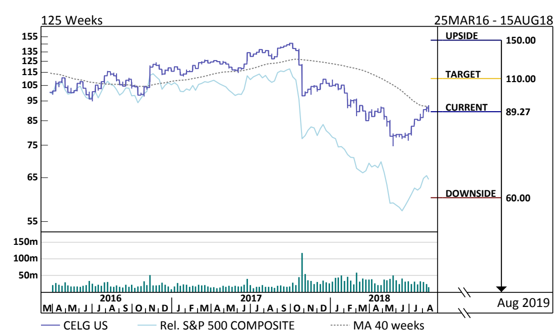

All values in USD unless otherwise noted.

Celgene Corporation (NASDAQ: CELG; 89.27)

Published August 16 2018 15:42 EDT

Rating: **Outperform**

Tidbits from Management Lunch With New CFO

We attended a sell-side luncheon hosted by CELG, featuring their new CFO David Elkins.

- David Elkins highlighted the more hands-on approach that he and other members of senior management are adopting to ensure direct oversight of pipeline, regulatory, and commercial franchises
- He noted very high investment and resourcing for their regulatory team, which we believe should reduce risk of any add'l missteps and help ensure smooth filing/approvals of ozanimod, luspatercept, fedratinib, and JCAR017
- David Elkins conveyed an approach of hands-on operational execution focus coupled with receptivity and humility - all of which we believe should help continue to steer the company back in the right direction

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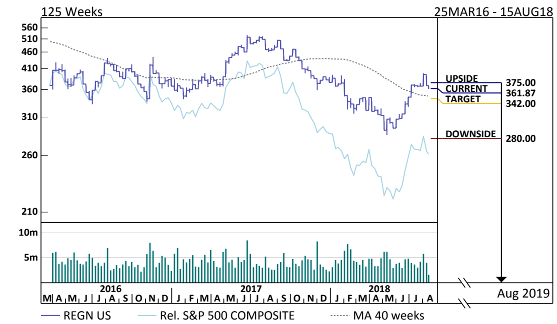
Regeneron Pharmaceuticals, Inc. (NASDAQ: REGN; 361.87)

Published August 16 2018 12:42 EDT

Rating: **Sector Perform**

"Rabbit from a hat" surprise Fasinumab ph3 OA pain win but safety remains focus

- **Surprise Ph3 osteoarthritis top-line pain win, but safety remains preliminary and our key focus for fasinumab/NGF-class.** This morning, REGN and Teva (TEVA) announced positive top-line data from the ph3 trial of fasinumab for



All values in USD unless otherwise noted.

the treatment of chronic pain due to osteoarthritis (OA) of the knee or hip. Both fasinumab subcu dose arms (1mg Q4W & 1mg Q8W) reported statistically significant reductions in pain and improvements in physical function from baseline vs placebo. However, REGN's press release concerningly noted an arthropathy safety signal with interim safety data suggesting a placebo-adjusted rate of adjudicated arthropathies of approximately 2% in the 65% of patients who had completed radiographic scans at 24wks (8wks post-16wk efficacy endpoint). While discontinuations were balanced, and no osteonecrosis was seen, we anticipate this may overhang these positive top-line efficacy data until 24wk scans are completed and further safety data is compiled from the ongoing long-term safety study. Recall, safety has plagued fasinumab and the NGF-class and the Independent Data Monitoring Committee (IDMC) recommended discontinuation of this trial's 3mg Q4W and 6mg Q8W high-dose arms earlier this year (see note here).

Earnings Preview

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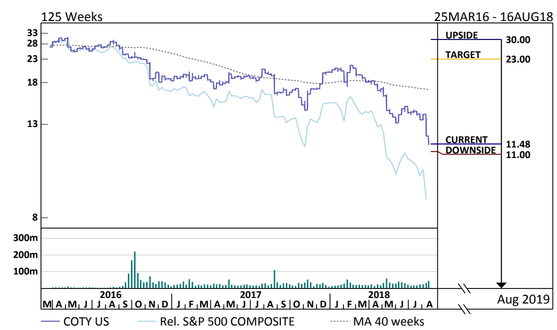
Coty Inc.(NYSE: COTY; 11.48)

Published August 17 2018 00:45 EDT

Rating: **Outperform**
Price Target: **23.00**

Is the Ugly Share Performance Justified?

Coty shares have underperformed the market by over 45% YTD and are now trading at ~15x P/E - over a 10 turn discount to February highs. Short interest also continues to climb (now over 9% of float). While our checks do not point to a blow out quarter (COTY is facing the same challenges as CPG peers), we think the sell-off has been overdone. Let us be clear - COTY's results will be noisy (given divestitures) and management is still building credibility, but at current levels we believe the risk/reward skews positive. Reiterate Outperform.



	EPS, Adj Diluted	P/AEPS
2017A	0.63	18.2x
2018E	0.69	16.6x
2019E	0.83	13.8x

All values in USD unless otherwise noted.

- We partnered with Infoscout to pulse check the CoverGirl relaunch. While still very early, initial results have been encouraging. Before the relaunch (CY'17), the CoverGirl brand saw sharp declines in household penetration (-240 bps) and share of spend (-170 bps). However, since the relaunch, InfoScout's data would suggest a marked improvement. Sequentially from December to March, CoverGirl household penetration increased 80 bps and share of spend increased 580 bps. Conversations with industry contacts would suggest the relaunch is helping the brand regain shelf space (~70-80% of lost sales were a result of declines in shelf space). It's also clear that Coty is investing in the brand, evidenced by announcing plans to open a CoverGirl freestanding store, packaging upgrades (more premium), and the hiring of new talent (particularly within supply chain and brand management). Of note, Coty hired Ukonwa Ojo from Unilever in late 2016 to assume the role of SVP, CoverGirl. She was recently promoted to chief marketing officer of global CoverGirl and Sally Hansen, as well as CMO of Coty's U.S. consumer beauty division. Feedback on recent Coty hires has been very positive. We will continue to monitor progress closely to assess how sustainable CoverGirl's turnaround really is. Importantly, a successful CoverGirl re-launch could be a signal that Coty is improving its brand/marketing capabilities (which would bode well for other brand re-launches).

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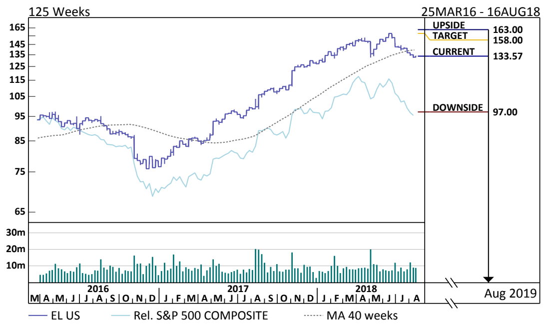
The Estée Lauder Companies Inc.(NYSE: EL; 133.57)

Published August 17 2018 00:45 EDT

Rating: **Outperform**
Price Target: **158.00**

F4Q'18 Preview & Cheat Sheet



	Revenue
2016A	11,264.0
2017A	11,826.0
2018E	13,696.0
2019E	14,783.0

All values in USD unless otherwise noted.

We expect F4Q18 local currency sales growth (SMI-adjusted) of +8.3% and EPS of $0.51 (with an upside bias). We believe the company will reiterate its desire to achieve 6-8% growth in FY19 with a clear indication that tough compares could lead them to achieve the lower-end of this range. We also suspect EL FY19 EPS guidance will be in the 10-12% range (consensus is +12%).

- **1) FY19 Guidance:** Looking forward this makes local currency top line compares increasingly more difficult starting in the June and September quarters. While we believe management will aim for 6-8% growth in 2019, we believe they will clearly signal that tough comps could lead to top-line delivery closer to the bottom of the range (which would still be highly attractive relative to other CPG companies). We also expect initial EPS guidance to be in the 10-12% range (consensus is +12%). Overall, we believe Estee's underlying business fundamentals remain very strong. **2) N. America and Developed Europe still the laggards:** Despite easy compares, our channel work suggests N. America is still under pressure. The Estée Lauder and Clinique brands are showing continued progress in the US, but the U.S. business as a whole over-indexes to the brick-and-mortar business of department stores, which remains challenged. MAC US remains in year over year decline. We believe the US will continue to be under pressure in 2019. In Europe, we believe the region is mixed for Estee. The UK remains under pressure while developing Europe is healthy. The Middle East remains under pressure. **3) E-commerce/Travel Retail:** Currently, EL products are available online in 38 countries, only one-quarter of the company's brick-and-mortar markets, suggesting a long runway for further e-commerce expansion. We believe travel retail will continue to deliver 15%+ growth in FY19 despite tough compares.

Company Comments

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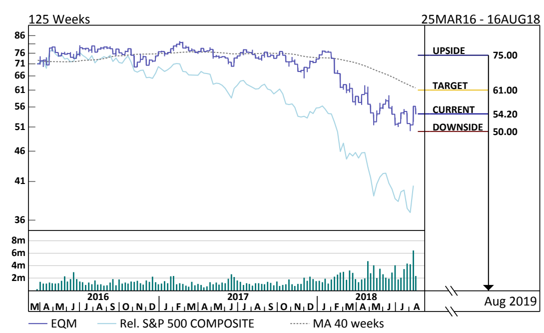

	DCF/unit	Prev.	P/DCF
2017A	5.68		9.5x
2018E	5.86		9.2x
2019E	6.00↓	7.35	9.0x
2020E	7.40↓	7.41	7.3x

All values in USD unless otherwise noted.

EQT Midstream Partners, LP(NYSE: EQM; 54.20)

Published August 17 2018 00:45 EDT

Rating: **Sector Perform**
Price Target: **61.00**

Model update for MVP

The MVP project is now expected to start up in 4Q19 (1Q19 previously). While the anticipated start date is delayed by >9 months, we think this was mostly already priced in following the stop work order issued on Aug 3. We think uncertainties will weigh on EQM's stock until more clarity on structure and valuation is disclosed (likely later this year). Maintaining Sector Perform.

- EQM now expects MVP to be in service in 4Q19 (previously was 1Q19).
- We lower our 2019 EBITDA and DCF/unit estimates to $1.290B and $6.00/unit, respectively. We note our 2020 EBITDA estimate remains unchanged at $1.568B. Our cash flow estimates yield a DCF coverage of >1.1x thru 2020. Additionally, given the delay in MVP, we push ~$500mm of capex estimate (primarily capex for compression) from 2018 into 2019. As such, we estimate leverage to remain below 4.0x in 2019 before declining closer to lower-3x range in 2020 as MVP cash flow ramps up.
- Given that our 2020 estimates largely remain the same, our valuation for EQM remains unchanged. We value EQM based on target multiples to our 2020E EBITDA. Our SOTP still values EQM at ~12.5x EBITDA in 2020E, which is about a turn below the non-IDR peer average given uncertainty around MVP and simplification. We think focus near term on EQM will be the potential roll-up into EQGP. Maintaining Sector Perform.

HCP, Inc.(NYSE: HCP; 26.98)

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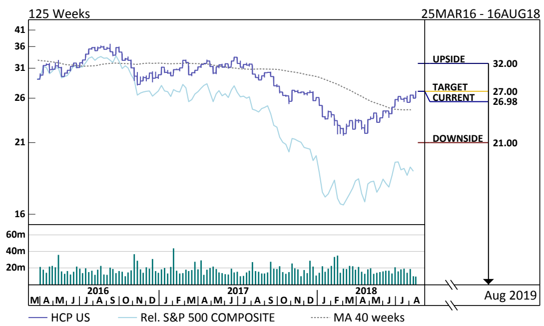
Published August 16 2018 16:58 EDT

Rating: **Sector Perform**
Price Target: **27.00**

Investment activity has and will likely continue to trend higher; $27/share target

The company is still making strides towards completing its announced repositioning plan, and we expect the transactions will be completed by year-end. We believe management will now have time to re-focus its efforts searching for new accretive investments including both acquisitions and developments. We still believe earnings will trend modestly lower in 2019, but should rebound in 2020 as developments stabilize. Our rating and target are unchanged.



	FFO/Sh, Rpt Diluted	Prev.
2017A	1.95	
2018E	1.84↑	1.81
2019E	1.80	
2020E	1.86	

All values in USD unless otherwise noted.

- The company has completed roughly 90% of the identified transactions in November 2017, and only has to complete another $150-$250 million of senior housing dispositions in order to close-out the portfolio re-positioning.
- Management has been deliberate deploying capital over the past few years, and only completed $230 million of total investments in 1H18. Going forward, we believe the company can now be more aggressive deploying capital given the completion of the re-positioning plan combined with an improving cost of capital.
- The assets generate same store cash NOI growth of 0.4% in 1H18, and management reiterated its full year outlook at 0.25-1.75%. The life science, MOB, and triple net portfolios are all performing well and towards the top half of expectations, but the senior housing operating portfolio is again turning in a more challenged performance.
- We are increasing our 2018 Reported FFO estimate to $1.84/share from $1.81/share and maintaining our 2019 and 2020 estimates at $1.80/share and $1.86/share, respectively.

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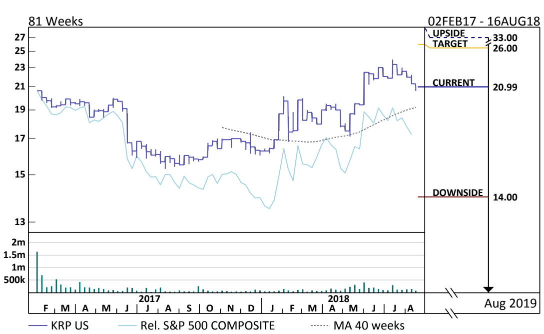
Kimbell Royalty Partners, LP(NYSE: KRP; 20.99)

Published August 17 2018 00:45 EDT

Rating: **Outperform**
Price Target: **26.00**

Bigger and Better

Following the trans-formative acquisition of Haymaker, and with plans to convert to C-corp, KRP remains focused on growing its portfolio through additional acquisitions (including dropdowns). Given the portfolio of dropdown opportunities and financial flexibility, we think KRP can continue to grow DCF/unit. Maintaining $26 price target and reiterating Outperform.



	DCF/unit	Prev.	P/DCF
2017A	1.34		15.7x
2018E	1.90↓	1.96	11.0x
2019E	2.50↓	2.61	8.4x
2020E	2.59↓	2.68	8.1x

All values in USD unless otherwise noted.

- Last week, KRP reported 2Q18 EBITDA of $7.7mm, which was ~5% above Street consensus estimates of ~$7.3mm and 5% below our estimate of $8.1mm. KRP reported 2Q18 DCF of $7.2mm, which was below our ~$7.9mm estimate and provided for distributions of $0.43/unit (RBC at $0.47/unit). Avg. daily production of 3,633 Boe/d was below our estimate of 3,723 Boe/d and roughly flat QoQ.
- Following the trans-formative Haymaker transaction, management remains committed to evaluating additional acquisition opportunities. Particularly, we think KRP looks to execute its first dropdown acquisition in the near-term. As a reminder, KRP has a 3-year ROFO on assets held at the sponsor and contributing parties. These mineral and royalty interests include ownership in over 4,000 gross producing wells in 10 states. While KRP does have some balance sheet capacity to fund a dropdown acquisition, we think KRP will look to fund with majority equity issued to the contributing parties or sponsor.

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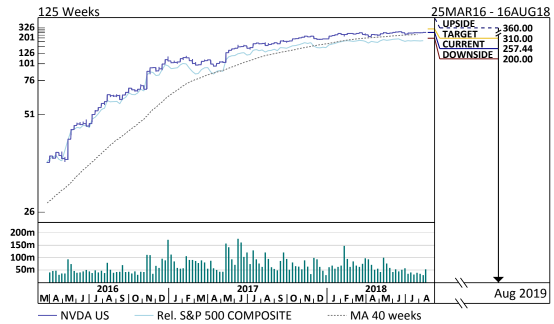
NVIDIA Corporation(NASDAQ: NVDA; 257.44)

Published August 16 2018 16:59 EDT



	Revenue	Prev.
2017A	6,910.0	
2018A	9,714.0	
2019E	12,957.0↓	13,005.5
2020E	14,538.0↓	14,710.9

All values in USD unless otherwise noted.

Rating: **Outperform**
Price Target: **310.00**

Pause in Growth Before Turing Ramps, We Think Investors Buy the Dip

Nvidia reported results that were ahead of expectations; however, guidance came in below Street ($3.25B mid-point vs. Street at $3.34B). Importantly, with Turing announced, we think this is causing a pause in revenue growth which should reappear in Q4.

- **The Takeaway:** Nvidia reported solid results in the quarter; however, we think investors were expecting more from Data Center which came in at $760M (we think expectations were closer to $775M). In addition, the Company guided the Oct-qtr below consensus expectations which was likely expected given 1) Turing launch causing a pause and 2) Data Center being lighter from a seasonality perspective in Jul-qtr. Overall, we think the stock price dip should be bought over the next couple of weeks given that we are experiencing Déjà vu from last year (Jul-17 was also impacted by a product pause - Data Center). *Net Net: we think the stock will take a small step back and the dip should be purchased on the back of the Turing product launch ramp.*

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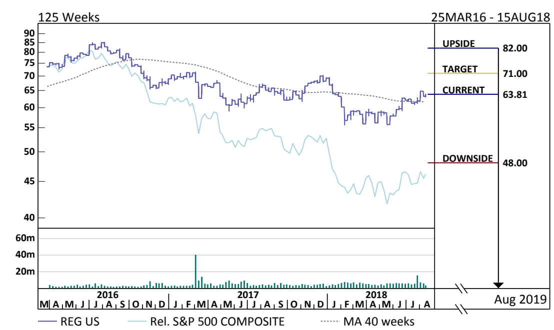

	FFO/Sh, Rpt Diluted	Prev.	P/Rpt FFO
2017A	3.09↓	3.69	20.7x
2018E	3.78		16.9x
2019E	3.91↓	4.02	16.3x
2020E	4.06↓	4.18	15.7x

All values in USD unless otherwise noted.

Regency Centers Corporation (NYSE: REG; 63.81)

Published August 16 2018 16:46 EDT

Rating: **Top Pick**
Price Target: **71.00**

Steady organic growth with a healthy redevelopment pipeline

REG posted solid results in 2Q18, highlighted by base rent growth of ~3.5% YoY. We believe the company is well positioned to generate above average NOI growth due to contractual rent increases, limited impact from distressed tenants, and redevelopment opportunities. Moreover, we think REG has a premier portfolio at a reasonable valuation.

- REG has benefited from its strong portfolio, contractual rent increases, redevelopments and less tenant fallout than expected. Management indicated that in 2H18 base rent growth is on track to remain above 3%.
- REG has delivered consistently strong SS NOI growth while navigating one of the tougher tenant environments on record with ~3.8% NOI growth since 1Q16. A key driver has been contractual rent increases. Over the past four years contractual rent increases have averaged ~2.5% on nearly 90% of REG's executed shop leases.
- REG's exposure to Toys "R" us was limited to five boxes. The company has been quick to address the vacancies by selling one, having another retailer assume the lease, releasing one, and they are in discussions on releasing the last two.
- REG indicated that it has visibility into over $1 billion of development and redevelopment starts over the next five years. Management highlighted a few future redevelopments including: The Abbot (retail/office) in Cambridge, MA, Market Common Clarendon (retail/office) in Arlington, VA, and the Westwood Shopping Center in Bethesda, MD. The latter will be a grocery anchored center that will have 200 units of apartments and 75 townhomes attached to it.

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Broadcast Advertracker

Published August 17 2018 00:45 EDT

Core Trends Remain Challenging, but Political Strong

- **Core ads weaken in 2Q; political strong.** As expected, core was weak in 2Q, declining ~6% and coming in below guidance/pacings on a double-digit decline in Auto and political crowd out. However, much of this was offset by stronger political as most companies saw upside to guidance/strong growth vs. 2Q14.

- **3Q core looking better; political remaining strong.** Of the seven companies we track, four commented on 3Q core trends. Three are seeing results improving vs. 2Q, while one is seeing stable to improving results. Auto was generally said to be improving. The better outlook is surprising given the strong 3Q political pacings. The political outlook for the remainder of the year is strong. SSP is projecting 20% growth vs. 3Q14, while GTN is looking for flat to up 10% (notable given the tough comp it faces). NXST and SBGI provided full-year guidance that implies low-double-digit growth vs. 2014.
- **Taking a closer look at Auto results.** While auto declined at a low double-digit rate in 2Q, several companies noted a meaningful improvement in pacings. Based on data points we've aggregated, we're not confident this trend is sustainable over the quarter.
- **Prefer NXST/SBGI.** Overall, while core trends have been softer, we see several positives for the group including improving subscriber trends, strong political, M&A optionality and reasonable valuations. We prefer stocks with company-specific catalysts such as M&A (NXST) or returns of capital (SBGI).

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Global Oilfield Services

Published August 16 2018 19:12 EDT

Sinking in Quicksand

Topic of the week: Sand gets pounded

- **Oversupply alert:** Supply is expected to overshoot demand in 2019. CVIA management estimates supply ~200mn tons with demand of ~100mn tons by the end of 2018. Other industry players debate the magnitude of supply.
- **Excess supply could drive pricing toward cash breakeven:** It appears we are in the early stages of downward pricing pressure. As more in-basin mines come online, this could negatively impact pricing.
- **More negative EBITDA revisions on the horizon:** Pricing pressure could compress margins and ultimately lead to negative EBITDA revisions. History tells us this is not a single quarter event.

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Memory Monthly: DRAM Stable But NAND Price Declines Continue in July

Published August 16 2018 14:25 EDT

- **ALL YOU NEED TO KNOW:** 3D-NAND prices in July continued to decline m/m with the rate of decline accelerating vs. June (high single digit decline in July vs. mid single digit in June). *Overall, while 2Q witnessed a sequential price decline of 10-15%, 3Q could see declines of ~15-20% levels, which is likely to be above the levels of cost downs*. This could put pressure on gross margins in Sep-qtr results of NAND vendors though the exact dynamic will vary depending on end product mix across various players. *On the DRAM side, July contract prices were largely flat but spot was down slightly and Aug-qtr pricing should see a similar trend resulting in continued high industry margins*. Overall, we think memory pricing data continues to read negatively for WDC and to a lesser extent for MU. *Investors would likely remain focused on 2H trends and at what point do price declines in NAND result in price reduction and incremental demand at Enterprise level (we think by end of the year) and iPhone demand + memory density trends. We think DRAM ASPs should hold strong in 2H with uptick from smartphone cycle (content uptick and volume improvement) could be a potential surprise.*

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Picture of the Week Vol. 33

Published August 16 2018 16:00 EDT

Getting in the 'Weeds' on Global Marijuana Law

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- **The U.S.:** Currently, 30 states, as well as Washington, D.C., have laws broadly legalizing marijuana in some form. Given rising public support (or indifference) we expect more states to follow suit during the remainder of 2018 and beyond. According to recent Gallup and CNN polls, 61% of Americans think that marijuana should be federally legalized, up from 31% in 2000.
- **International:** STZ management noted Canopy will be going global with its marijuana efforts. To date the following countries have at least decriminalized marijuana: Canada, Argentina, Belize, Chile, Colombia, Ecuador, Jamaica, Mexico, Peru, Uruguay, Belgium, Croatia, The Czech Republic, Estonia, Finland, Germany, Greece, Italy, Macedonia, Poland, Spain, Switzerland, Turkey, Australia, and Israel. At this stage there is still a lot of 'gray area,' but we'd expect states/ countries to continuously lighten up to the idea of legalization.

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RBC European Utilities Morning Lightbulb

Published August 17 2018 08:15 EDT

- **Ofgem delays price cap publication**
- **Norway reassures over hydro levels**
- **UK should scrap Carbon floor price: Iain Duncan Smith**
- **Biffa acquires UK waste and recycling operation**

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RBC International E&P and OFS Daily

Published August 17 2018 07:34 EDT

FPM; SHLF; OPHR; CNE; WG; NOG; PMO

Faroe Petroleum (FPM.L): Preparing to repel boarders; Commodity Comment: Caught in the Crossfire; Shelf Drilling (SHLF.OL): Contract Extension on the Shelf Drilling Resourceful; Maersk Drilling targeting 2019 listing; SDX (SDX.TO): Energy Successful production test at SD-3X well, Egypt; US E&P: Bakken Heat Map – June 2018; Week Ahead;

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US E&P: Bakken Heat Map – June 2018

Published August 16 2018 16:57 EDT

- **The NDIC reported June 2018 oil and gas production.** Production was 1,609 Mboe/d, down 1.4% sequentially. Oil production declined 0.2% (21 Mb/d) to 1,226 Mb/d. This is below the August EIA DPR report that indicated June Bakken oil production increased 8 Mb/d to 1,265 Mb/d. Natural gas production also declined and is now at 2.3 Bcf/d. The natural gas flaring ratio was 16.8%; state regulations limit flaring to 12% (from 15%) starting in November 2018.
- **Oil production declined in June.** There were 63 wells completed in June, down 9 sequentially and below the YTD average of 74 wells/month. The May completion count was revised upward by 30 wells to 72. In June, there were 11 days of excessive wind speed, which is too high for well completion work. We expect the completion pace to increase this summer, although workforce constraints could limit the development pace.
- **The uncompleted well backlog (DUCs) increased 38 wells to 993.** In June, there were 102 spuds, roughly flat to May. We attribute the increased backlog to spuds running above June completions, and we expect higher activity in 3Q18. In June, the rig count increased by 1 to 63 rigs ***(see p. 4)***.
- **Permian infrastructure constraints could place a higher call on Williston Basin volumes over the next 6-9 months.** June Williston Basin permits totaled 113,

slightly above the YTD average of 107 per month. Current permit inventory levels accommodate increased drilling over the next year.

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US E&P: Permian M&A...Predator & Prey

Published August 16 2018 17:50 EDT

Weekly Valuation Update: August 16, 2018

- **FANG sinks its teeth into another consolidating acquisition.** Energy equity volatility created frustration for investors with the XOP down 4% this week despite an acquisition that some expected should drive stocks higher. Diamondback Energy (FANG, not covered) agreed to acquire Energen for $9.2 billion (16% premium to last close). The acquisition metrics screened fair but some investors were slightly disappointed with the premium relative to past industry transactions and FANG's subsequent share price performance. We estimate the implied per-acre value equates to $40,000/acre, which is reasonable given the quality of EGN's Midland and Delaware acreage positions. The combined company would be the eighth largest independent E&P and create the third largest Permian pure-play, behind CXO and PXD. Investor conversations around Permian consolidation were mixed but we expect that trend to continue over time with a focus on SMid caps such as PE, CDEV, MTDR, JAG, and CPE.

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Video: "The Feedback Loop" – Ratings Change Edition

Published August 16 2018 10:58 EDT

INCY Upgrade; ICPT Downgrade; GILD Mgmt Transitions

In this video, we take a closer look at the questions and themes we've been hearing most from investors of late and provide our thoughts and analyses.

- We discuss our deep dive analysis of strategic options that INCY could consider to improve earnings and growth, increase margins, and add long-term value.
- Why we have decided to step to the sidelines, even though we are positive on the 1H19 REGENERATE data results.
- We discuss recent GILD management changes, the implications of ViiV's ATLAS HIV data, how much value GILD's PRVs could drive, and what a recent filgotinib paper could mean for that drug's regulatory path.

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Commodity Comment: Caught in the Crossfire

Published August 16 2018 14:36 EDT

Geopolitics, Oil, Natural Gas and Gold

- The Tesla buyout news has propelled Saudi Arabia's PIF into the limelight at a time when its own funding strategy is undergoing some significant shifts, such as to diversify the economy away from dependence on oil revenue. While macro contagion fears continue to dominate the narrative, we anticipate oil prices will firm later this year due to support from the supply side. Of course, this is barring any further broad shocks to the global economy. Storage remains below last year's level, the five-year average, and the five-year historical range, which along with warmer than normal summer-to-date weather, has provided at least some support to US natural gas. Physically backed gold holdings have fallen dramatically in tonnage terms QTD and we simply are not yet at a point where that will turn around just yet… even if we are ready for a catalyst higher.

In-Depth Reports

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US Food Retail/Distributors: Much Ado About Amazon

Published August 17 2018 00:45 EDT

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Whole Foods under Amazon One Year Later

- We looked at the impact in the year following Amazon's entry into brick-and-mortar store grocery retailing through the acquisition of Whole Foods. We found that: 1) Grocery Prices have done up (Food-at-Home CPI -1.3% in the 12 months before vs. +0.5% after); 2) Grocery gross profit dollars have grown Food Retailing Margin PPI +1.0%; before +1.7% after); 3) Grocery margin (%) contraction has eased (average contraction pre amazon -64bps and -17bps after); and 4) Coverage comp growth have accelerated (average of 290bps). Moreover, customers seems less satisfied with Whole Foods stores (Yelp customer rating slipped to 3.56 Aug-2018 from 3.62 May-2017). Further, we believe there are margin considerations even though Amazon made headlines with lowering prices aggressively. Price investments are funded through price increase in other parts of store or by vendor (e.g. 25% off vitamin/supplements Prime Member only deal used to be for all customers). We contended then and contend now that grocery already had its competitive harvest of excess margin (Walmart during late 1990’s–early 2000's) and the disruptive opportunity for Amazon was/is smaller. Grocery operators have commented on lack of impact from Amazon/ Whole Foods on results. We believe grocery is ownable in the face of the Amazon fear and should show more profitability improvement as the industry laps heavy promotional activity. In order, we prefer SFS, SFM, KR, NGVC to the foodservice names. SFS is still 50% off its pre-Amazon levels, KR and SFM are roughly at pre-Amazon levels, and NGVC is 100% above.

RBC Capital Markets

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