

My bearish call on Uber IPO was a strategic winner

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I had published a column in the UK/MENA press arguing that the Uber IPO was “absurdly valued” last week. I was vindicated with a vengeance when Uber priced its IPO at 45, well below the level Saudi Arabia’s uber-sovereign wealth fund PIF invested \$3.5 billion in the hose of Travis (now Dara) three years ago. Uber opened on the NYSE with a whimper, not a bang and closed at \$41.50 on Friday or a pathetic 69 billion market cap. I heard that Uber only wanted to allocate stock to the world’s largest institutional investors and not trading Johnnys like me. Yet demand for the biggest IPO on Wall Street since Facebook was a world class flop. The gullible dudes and dudetes East of Suez who were conned by private bankers into expecting a \$120 billion post IPO valuation must now cut their losses as they get skinned alive, just as I predicted in my pre-IPO column. Suddenly retail investors and hedge funds scorned by Uber as mere flippers, were desperately allocated paper on a day when Trump did another nasty tweet on the China trade talks and \$200 billion in tariffs went live. What next?

I expect a tsunami of selling in Uber in the months ahead that will accelerate the stock’s decline to my proximate target of \$30. Why?

One, even \$20 billion is a nosebleed valuation for a company that could well lose \$8 billion in the next two years and whose revenue growth has plummeted to 18%.

Two, holders of Uber convertible bonds and Silicon Valley late stage down rounders are natural sellers of stock on the Big Board to hedge their positions that now hemorrhage money.

Three, Uber insiders will scramble to get out before the gravy train gets derailed, as it was at the IPO. Note that this is one of the oldest unicorns in existence and panic has replaced the previous swagger among insiders and financiers.

Four, Lyft is down to 53 now, down from a 85 high just after its IPO pop. Uber, in Sophoclean tragedy of hubris gone ballistic, could not even manage a one day pop. Hero became zero the moment the stock broke its IPO underwriting syndicate.

Five, Uber does not break down intelligence on “unit economics”. So nobody in the world knows exactly what is going on in dozens of countries where they claim rising market share. Frankly, I do not blame them for withholding unit economics data – it must be even worse than I calculated in my thumps down on the pre-IPO valuation of 76 billion Silicon Valley deal brokers pressured me to accept. As the Texan oil men say, sure I was born at night – only not last night.

Six, Uber is hostage to taxi driver demands for higher pay/revenue share in its biggest urban markets – London, New York, San Fran, L.A and Sao Paulo. This is an unwinnable fight in a populist era and a white hot labour market.

Seven, Uber losses have doubled and its EBID margins are a negative 15%. I do not need to have the brilliance of a Chartered Accountant to know something is rotten in the house of Dara Khosrowshahi or at least in his business/financial model.

Eight, Uber’s revenue growth has plunged to 18% from 70% in the past year. Only a lunatic/stock market masochist will pay seven times revenue for a company whose hyper growth era has long gone. This is a unicorn whose horns have been ripped off its nose.

Nine, Uber has been forced to exit China by Didi, Russia/CIS by Yandex Taxi and Southeast Asia by Grab. Careem? Irrelevant in a global context.

Ten, Uber is way behind Waymo in the autonomous vehicle revolution. Uber has no pricing leverage and is destined for profitless growth, the kiss of death on Wall Street (ex. Amazon).

Eleven, ugly truth is Uber's business model is fatally flawed, I expect Uber will fall to my ultimate target of \$10 - \$12 in the next twelve months. I may be wrong but what if I am right. What then?

I know many investors in the GCC who expected Uber to go public at 60 a share or higher. I pointed out that Lyft was 10 times oversubscribed and is still trading almost 30% below its IPO offer price. The Uber IPO was 5 times oversubscribed.

The real "sizzler" in the IPO market last week was Beyond Meat (symbol BYND), which tripled above its IPO offer price. Unlike Uber, Beyond Meat priced its IPO and its shares were a fairy tale on the stock market, rising to 70 a few trading sessions later.

The failed Uber IPO now deflates the wider Silicon Valley private equity tech bubble. It will be prudent for investors and auditors to mark down their "digital bubble" era pre-IPO unicorn puppies by 60 - 80%. Even Palantir and Airbnb will not be spared the coming bloodbath. Welcome to Nasdaq 2000 AD. What a shame, what a world!

Buy the Canadian dollar for a 1.30 tactical target with a tight stop!

I was stunned by the Canadian jobs data on Friday. The economy added a record 106,500 workers in April across a broad spectrum of industries/provinces while wage growth was a stellar 2.5%. This is beyond good - it is great news and totally destroys the "Great White Short" investment thesis of some big macro funds in Greenwich, Manhattan and London (you know who you are, O leveraged Masters of the Universe!).

To paraphrase the lament of Mexican dictator Porfirio Diaz "Poor Canada. So far from God, so close to the United States". The April jobs and wages data are a game changer for my tactical outlook on the loonie. I now believe the Canadian dollar is a compelling buy at 1.3450 for a 1.30 three-month target. Why?

One, the Canadian economy is far stronger than the soft patch presented by Bank of Canada Governor Stephen Poloz at the last Monetary Policy Review. Such strong job/wage growth is inconsistent with the Great White Short thesis that the Canadian housing price time bomb is set for imminent detonation. This means Governor Poloz has no need to signal a rate cut to Bay Street - au contraire. If there is no recession risk in Canada, there is no need for a preemptive rate cut by the Ottawa central bank. Quite the opposite, in fact.

Two, geopolitical tensions in Venezuela, Libya, US-Iran and Algeria are rising alarmingly. This means crude oil prices (energy is 25% of the Canadian GDP), can tighten well above \$70 Brent. The loonie is a de facto petrocurrency in North America.

Three, Chicago Merc IMM data suggests that the entire Milky Way is a speculative short on Canadian dollar. This could mean the mother of all short squeezes next week. The loonie can soar like an eagle as the shorts get squeezed by real money accounts.

Four, as the Daddy of a McGill University senior and friend of so many Dubai based "snow birds", the loonie's twists and turns are part and parcel of my trading life. Yet I notice the shrinkage in interest rate differentials between two year US Treasury notes and Canadian government debt, historically correlated with short term loonie moves, suggests the Canadian dollar is undervalued relative to economic performance and interest rate spreads with Uncle Sam's IOU's. This means the Canadian dollar is now once again a tactical buy at 1.3450 for a 1.30 target with a trailing stop loss.

Five, it is mission critical that loonie bears cover their shorts and reappraise Justin Trudeau's track record as Canada's Liberal Prime Minister. After all, the Canadian economy has added 700,000 jobs in the past two years and the unemployment rate, while 5.7% or 201 basis points above its US equivalent, is still the lowest since the Brian Mulroney era almost four decades ago.

Six, King Dollar can be hit by US-China trade backlash, safe haven buying in US Treasuries and soft inflation data that could deter the Powell Fed from a 2019 rate hike. The two-year US Treasury note premium to Canadian government debt has compressed from 70 to 62 basis points as I write. West Texas crude is \$62. In my valuation crystal ball, this is consistent with a 1.30 loonie. So there!

A potential breakdown in US-China trade relations will have a seismic impact on international financial markets. After all, the Middle Kingdom is at the epicenter of global supply chains in industries that range from semiconductors to handsets, computer components to home/hotel furniture. Moreover, Chinese corporates have borrowed \$850 billion in onshore Asian debt/syndicated loan markets. There is thus a panic bid in the US dollar against the Chinese yuan. It is entirely possible that the Chinese yuan depreciates to 7.50 if trade tensions escalate into a new economic Cold War between Washington and Beijing.

The petrocurrency trade de jour seems to be to go long the Russian rouble against the Mexican peso. This does not surprise me. The volatility adjusted carry metrics in the Russian rouble have meant a 9% return against King Dollar in 2019. In fact, hedge funds are increasing their exposure on the Russian rouble at 65 on the conviction that oil prices will be anchored by geopolitical risk in the Middle East and Russian economic growth could accelerate once Bank Rossiya cuts policy rates.

The 57.30% weak ANC win in the South African general election reflects the toxic political legacy of the Zuma "lost decade". Yet the financial markets believe Ramaposa's majority is a de facto mandate for economic reform, the reason the Rand rose to 14.19 after the polls. Of course, a major rand rally needs a US-China trade pact, a dethroned King Dollar and frontloaded ANC embrace of reforms. My pessimism on this macro scenario leads me to believe the Azania Rand is headed to 14.60 by year end 2019. Watch King Dingan do the Juju on Ramaposa's new Cabinet.

A version of this OP ED also appeared in AmeInfo on Maay 13, 2019: and can be accessed [here](#).