

Most shorted ahead of earnings

Tuesday, May 2nd 2017

We reveal how short sellers are positioning themselves in companies announcing earnings in the coming week

- Shorts surged in Canadian lender Home Capital Group ahead of recent plunge
- Fingerprint Card short seller took profits after the firm pulls its guidance
- Chemical firm OCI highest conviction Asian firm announcing earnings

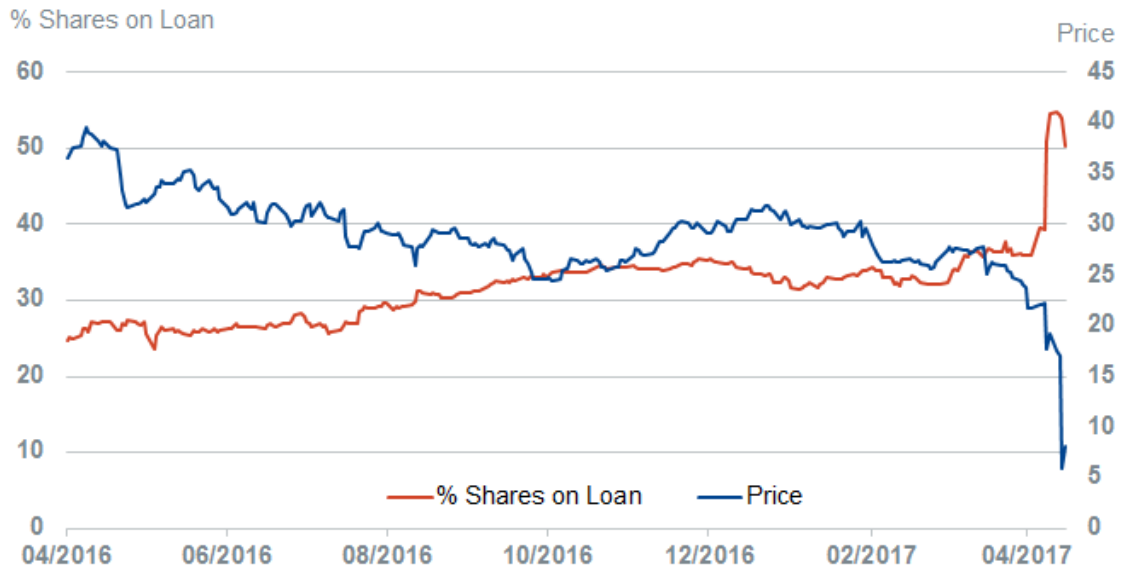
North America

Name	Industry	Ticker	Earnings Date	% Shares Outstanding On Loan	1 Month % Change
Home Capital Group Inc	Thrifts & Mortgage Finance	HCG	5/3/2017	50.4	38%
Rent-A-Center Inc	Specialty Retail	RCII	5/1/2017	39.7	19%
Lannett Company Inc	Pharmaceuticals	LCI	5/2/2017	34.2	-6%
Computer Programs And Systems	Health Care Technology	CPSI	5/4/2017	29.8	-2%
Us Concrete Inc	Construction Materials	USCR	5/4/2017	29.2	-2%
Axon Enterprise Inc	Aerospace & Defense	AAXN	5/3/2017	29.0	24%
Oclaro Inc	Communications Equipment	OCLR	5/2/2017	28.7	92%
Heron Therapeutics Inc	Biotechnology	HRTX	5/4/2017	26.4	-1%
Banc Of California Inc	Banks	BANC	5/4/2017	26.1	13%
Myriad Genetics Inc	Biotechnology	MYGN	5/2/2017	25.9	6%
Frontier Communications Corp	Diversified Telecommunication Services	FTR	5/2/2017	25.6	6%
Flotek Industries Inc	Chemicals	FTK	5/3/2017	25.0	-2%
3D Systems Corp	Technology Hardware, Storage & Perip	DDD	5/3/2017	24.9	32%
Seritage Growth Properties	Equity Real Estate Investment Trusts (SRG	5/4/2017	24.8	0%
California Resources Corp	Oil, Gas & Consumable Fuels	CRC	5/4/2017	24.7	28%
Lumber Liquidators Holdings Inc	Specialty Retail	LL	5/2/2017	24.5	-4%
Src Energy Inc	Oil, Gas & Consumable Fuels	SRCI	5/4/2017	24.4	-14%
Applied Optoelectronics Inc	Communications Equipment	AAOI	5/4/2017	24.2	104%

The post election bull market has made it tough going for short sellers over the last few months. Yet despite the tough macro environment for contrarian investors, shorts have still managed to correctly call several of this year's worst stock collapses as evidenced last week in Canadian mortgage lender Home Capital Group. The company's stock fell by over 60% last week after the firm announced that it was seeking emergency liquidity to plug a gap in its balance sheet left by a recent depositor withdrawals. This was only the latest in a string of bad news however as the Canadian market regulator had previously accused the company of misleading investors in its disclosures which sent its shares down sharply. Short sellers, who were already very active in Home Capital Group's shares, increased their bets in the wake of the recent allegations which meant that over 50% of the lender's shares

were out on loan just before last week's collapse. These events will no doubt make this week's earnings announcement a bit of a non-event for short sellers given that Home Capital Group shares have already lost three quarter of their value year to date.

Home Capital Group Inc



Source: IHS Markit

The large amount of capital committed by Home Capital short sellers in recent weeks is far from a one off event as the majority of the most shorted firms ahead of earnings have seen large increases in the demand to borrow their shares in the month leading up to earnings which indicates that short sellers are still very much active in the current market.

Communications equipment firms Applied Optoelectronics and Oclaro are two firms which have felt the worst deterioration in investor sentiment ahead of earnings as demand to borrow both firms' shares has doubled over the last month. The firms now have 29% and 24% of their shares out on loan respectively.

Telecommunication short sellers have also been actively targeting mobile operators as Frontier Communications has over a quarter of its shares out on loan. This consistently high short interest comes despite the fact that Frontier shares have lost over 75% of their value from their peak in 2015. This skepticism is mirrored by sell side analysts who aren't the company to turn a quarterly profit until at least Q4 2018.

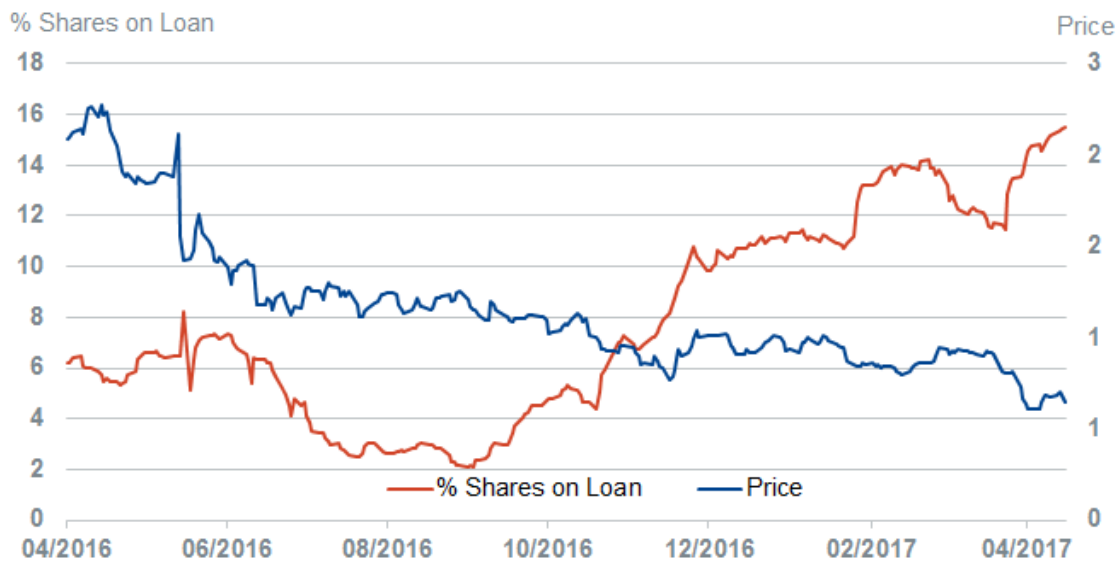
3D printing firm 3D Systems, which has rallied strongly from its lows set in Q1 2016, is another firm to come under short seller's scrutiny heading into Q1 earnings season as demand to borrow its shares has climbed by over a third in the last month to 25% of shares outstanding.

Europe

Name	Industry	Ticker	Earnings Date	% Shares Outstanding On Loan	1 Month % Change
Banco Popular Espanol Sa	Banks	POP	5/5/2017	15.5	32%
Fingerprint Cards Ab	Electronic Equipment, Instruments & C	FING B	5/4/2017	12.7	-11%
Outotec Oyj	Metals & Mining	OTE1V	5/4/2017	11.3	-8%
Azimet Holding Spa	Capital Markets	AZM	5/4/2017	11.2	-5%
J Sainsbury Plc	Food & Staples Retailing	SBRY	5/3/2017	10.9	-4%
Dufry Ag	Specialty Retail	DUFN	5/2/2017	10.8	209%
Rec Silicon Asa	Semiconductors & Semiconductor Equ	REC	5/3/2017	10.0	-7%
Bavarian Nordic A/S	Biotechnology	BAVA	5/4/2017	9.1	-20%
Morphosys Ag	Life Sciences Tools & Services	MOR	5/3/2017	8.6	25%
Dno Asa	Oil, Gas & Consumable Fuels	DNO	5/4/2017	7.7	1%
Eitel Ab	Construction & Engineering	ELTEL	5/2/2017	7.4	3%

European short sellers have singled out Spanish bank Banco Popular as their highest conviction short among the region's firms announcing earnings this week. While Banco Popular has been a short target for some time now, demand to borrow the firm's shares has reached fever pitch over the last month after its debt was downgraded by ratings agency Moody's owing to its deteriorating capital position. This report prompted short sellers to increase their bets by a third to an all-time high 15.5% of shares outstanding.

Banco Popular Espanol Sa



Source: IHS Markit

Fingerprint Cards, sees itself as the second most shorted European company ahead of earnings as it has 12.7% of its shares out on loan ahead of its first quarter earnings announcement on Thursday. Short sellers have already profited from the company's first quarter as Fingerprint Cards pulled its profit and margin guidance back in March citing weak demand from OEM customers. The days following the announcement saw Fingerprint Card shares lose over a third of their value and short sellers, which had borrowed an all-time high 23% of the company's shares prior to the profits warning, have started to take profits off the table from their Fingerprint short as demand to borrow has since fallen by 40%.

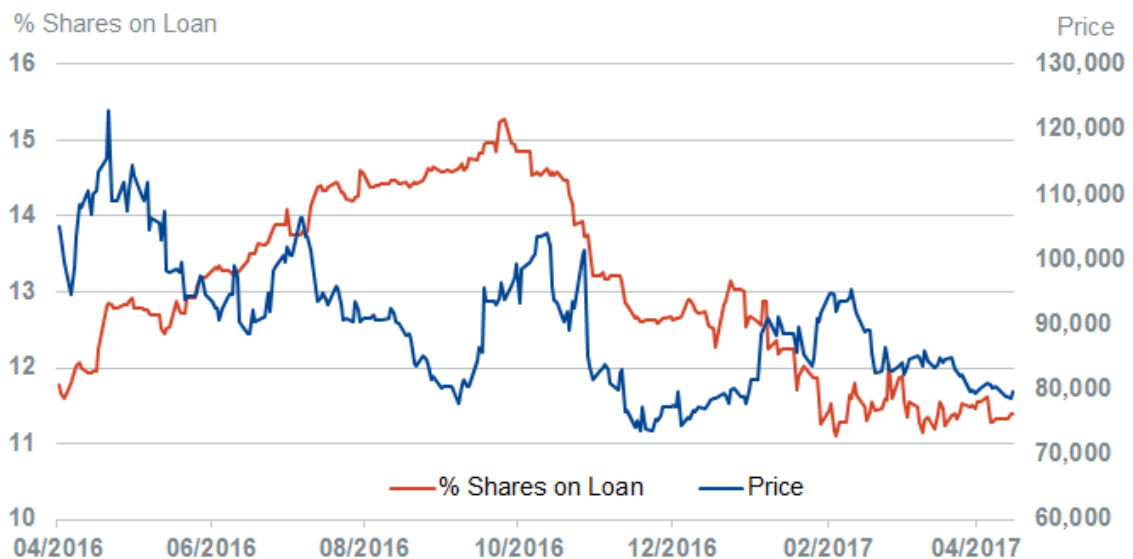
Supermarket firm Sainsbury's is the only UK traded firm to feature among the 10 most shorted firms announcing earnings in Europe this week. Although fairly negative owing to its large short interest, Sainsbury's investor sentiment has brightened somewhat in recent weeks as demand to borrow its shares has recently hit the lowest in over two and a half years.

Asia

Name	Industry	Ticker	Earnings Date	% Shares Outstanding On Loan	1 Month % Change
Oci Co Ltd	Chemicals	010060	5/4/2017	11.4	1%
Istyle Inc	Internet Software & Services	3660	5/2/2017	11.1	0%
Gmo Payment Gateway Inc	IT Services	3769	5/1/2017	6.6	-18%
Homecast Co Ltd	Communications Equipment	064240	5/4/2017	6.0	23%
Dio Corp	Health Care Equipment & Supplies	039840	5/4/2017	5.7	8%
Starhub Ltd	Wireless Telecommunication Services	CC3	5/3/2017	5.2	7%
Hannstar Display Corp	Electronic Equipment, Instruments & C	6116	5/3/2017	5.1	24%
Septeni Holdings Co Ltd	Media	4293	5/1/2017	5.0	-36%
Yumeshin Holdings Co Ltd	Professional Services	2362	5/2/2017	4.4	20%
Visual Photonics Epitaxy Co Ltd	Semiconductors & Semiconductor Equ	2455	5/2/2017	4.3	6%
Sino-American Silicon Products In	Semiconductors & Semiconductor Equ	5483	5/5/2017	4.2	-10%

The high conviction short in Asia this week is South Korean chemical manufacturer OCI which has 11.4% of its shares out on loan. OCI has a large exposure to the solar industry as it supplies polysilicon, a fundamental building block of solar panels, and the slowing demand from the world's largest solar panel installer, China, threatens to compound the industry's ongoing glut of manufacturing capacity. Despite these potential operational headwinds, OCI short sellers have trimmed their positions somewhat as demand to borrow its shares has fallen by nearly a third from the highs set in Q3 last year.

Oci Co Ltd



Source: IHS Markit

Tech firms make up the vast majority of the 10 remaining short targets announcing earnings next week with Japanese web marketer iStyle the most shorted of the lot as it has 11.4% of its shares outstanding on loan.

Contacts:**Simon Colvin**

Analyst

+44 20 7260 7614

Simon.colvin@ihsmarkit.com

For further information, please visit www.ihsmarkit.co

Disclaimer

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.