

Newsletter

January 2015

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Investment Banking Report

NIC Fund

Article

nic Nova Investment Club
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Investment Banking Report

January



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1. Macro Overview

Oil-producing countries such as Brazil, Venezuela, Iran and Russia have seen their state budgets and economic activity deteriorate, as a consequence of the downturn in oil prices. Nevertheless, Saudi Arabian officials have said they are willing to let oil prices reach lower levels if they feel the state's market share is being threatened. The death of Saudi Arabia's King Abdullah, on the 23rd of January, led to some speculation that this policy could come to an end. However, the new king, King Salman, has already confirmed that the Kingdom will maintain its oil production, with most analysts claiming that there are no reasons for changes in this policy in the near future.

Europe has definitely been the region that most captured the financial world's attention in this first month of 2015. Since the first week of January, there had been hints that the European Central Bank was getting ready to take action in case the economy did not improve. The hints came from the President of the ECB himself, Mr. Mario Draghi, which sent the euro to its lowest level against the US dollar since 2010. Investors speculated about what kind of action would be coming Europe's way, with Quantitative Easing (QE) appearing to be the obvious answer, in light of low inflation and even the 20 basis point deflation in December.

With QE appearing to be the obvious outcome, on the 15th of January the Swiss National Bank decided to end its policy of buying euros to keep the Swiss franc pegged with the Union's currency, which caught investors off-guard. This resulted in a rapid appreciation of the franc (a maximum of 41% before stabilising at 16%) and losses to many investors who were short on the Swiss franc. Many analysts now predict that this decision opened the door for gold to rise, as investors look for alternative safe havens from the uncertainty in global markets.

On the 22nd of January Mr. Draghi, as expected, made QE in Europe materialise by announcing that the ECB would be starting €60bn monthly bond purchases, to be conducted at least until September 2016. This would result in total bond-buying that could surpass €1.1tr, a quantity higher than analysts predicted. The scale of the purchases, led the euro to plummet to its lowest level against the US dollar since 2004 on the 23rd of January. Adding to the climate of uncertainty in global markets, Syriza, the far-left anti-austerity party in favour of renegotiating Greece's debt, won the recent 2015 Greek Legislative Elections, sparking fears among investors that Greece could stop honouring its financial commitments with creditors and ultimately leave the Euro Zone, originating an unprecedented period of trouble within the Union.

Companies

- Toyota Motor
- General Motors
- Alcoa
- Kinder Morgan
- Jerónimo Martins
- IBM
- eBay
- UBS Group
- Goldman Sachs

This month's detailed company reviews:

- Impresa
- British Telecom

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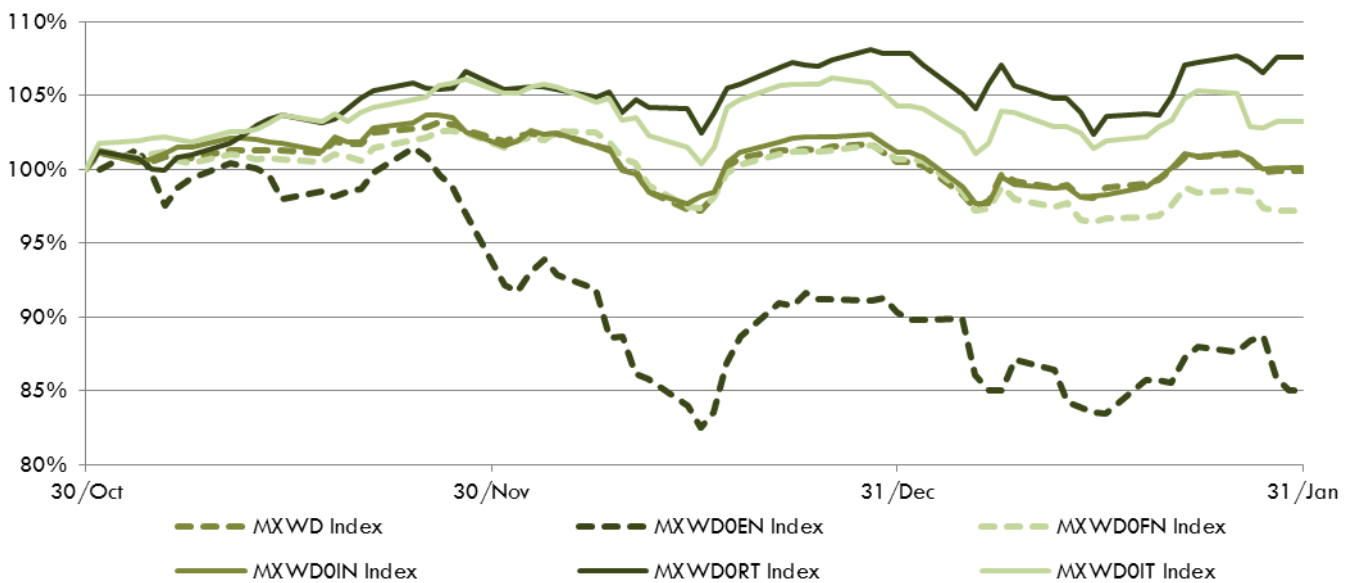
1. Macro Overview
2. Followed Companies
3. Detailed Review
4. Mergers and Acquisitions

Countries' Economic Data

Country	December Inflation (%)		Exchange Rate		Unemployment Rate (%)		10 Year Yield	
	MoM	YoY	USD	Monthly Change (%)			Current (%)	Monthly Change (bp)
United States	-0.37	0.8	1	-	5.70	Q4	1.641	-55
Eurozone	-0.1	-0.2	1.1291	-7.12	11.47	Q4	0.302	-24
Portugal	0	-0.36	1.1291	-7.12	13.50	Q4	2.640	-4
Japan	0.1	2.4	0.008508	1.65	3.47	Q4	0.278	-5
Greece	-0.5	-2.6	1.1291	-7.12	25.23	Q3	11.172	158
Russia	2.6	11.4	0.01442	-20.02	5.20	Q4	5.079	n/a
China	0.3	1.5	0.15989	-0.84	4.07	Q3	3.510	-14
Brazil	0.78	6.41	0.3728	-1.32	4.60	Q4	11.955	-39

- In the table above the first thing you are likely to spot are the December year-on-year deflation in the Eurozone, Portugal and Greece. For the first time in the last five years prices decreased in Europe. Deflation however, is not necessarily caused by slowing demand or purchase postponing, in fact retail sales rose in advanced economies for the same period of time, as the graph below suggests. The 50% drop in oil prices can rather explain cheaper goods, as it results in lower energy expenditure;
- Russia is perhaps the oil producing country that took the worst beat, since the difficulties of the flagship state companies such as Gazprom and Rosneft, were aggravated by the inopportune international sanctions, resulting from the ongoing Ukrainian tensions. This led to a severe depreciation of the ruble;
- Much like Russia, Brazil prevented from exploring the numerous reserves it has due to the prohibitive oil prices, also saw the costs of goods rise. Nevertheless its yields followed the global decreasing trend;
- The QE program had its effects even before comencing with the Euro down 7% since the end of December.

Sectors' Overview



- It's a fact that the MSCI World Energy Index (MXWDOEN) is mainly driven by oil companies which in turn are mainly driven by oil prices which its said to affect roughly 40% of the global economy. For that reason it is not surprising that as the Energy Index diverges from the MSCI World Index (MXWD), other sectors are likely to diverge as well.
- This is the case of the Retail index (MXWDORT) with Energy companies squeezing margins for Retail to increase theirs as Distribution gets cheaper.
- Another heavy energy consumer sector failed to stand out, Industrials (MXWDOIN) had a very similar performance to the Financial Sector (MXWD0FN).

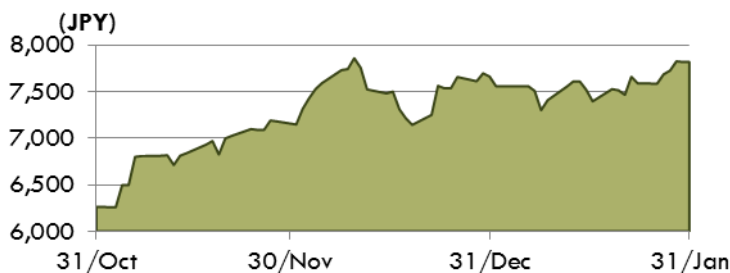
2. Followed Companies

Toyota Motor Corp.

(Ticker: 7203 JT Equity)

Industry: Industrials

- Toyota remains on the pole position in the global auto market, having sold 10.23m cars and trucks in 2014. It hence outperformed its biggest rivals Volkswagen (10.14m) and GM (9.92m) once again.
- While Toyota performs strongly on the North American (28% of sales generated) market, the company falls behind its competitors on the Chinese market. Hence Toyota expects sales of 1.1m (6.6% growth) in China this year while VW and GM sell more than 3.5m units a year in the country.
- Toyota's worldwide sales are forecasted to drop by 1.0% YoY to 10.15m vehicles.



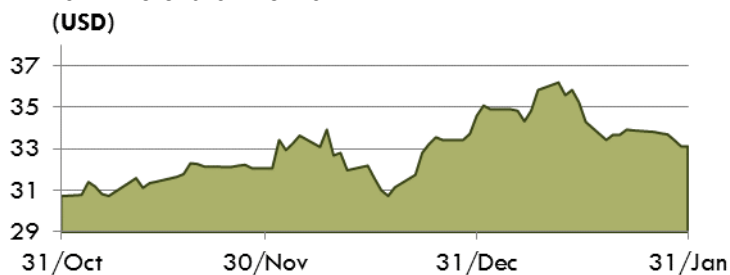
Price (JPY):	↑ 7,818.00
Target Price (JPY):	8,800.00
Up/downside:	12.6%
Performance 3M:	20.3%
P/E Ratio:	12.7x
ROC/WACC:	1.0x

General Motors Co.

(Ticker: GM US Equity)

Industry: Industrials

- GM predicts higher core profit margins in 2015 due to increased sales and a shift towards selling cars with higher margins.
- GM also predicts to continue its sales' growth in 2015. The 9.92m sold vehicles in 2014 are an all time record and 2% higher than the 2013 figure. This is mainly due to 5.5% increase in North American sales and a 12% increase in China. At the same time sales were dragged down by a 15.3% decline in South America and a 9.9% decline in Europe.
- GM's predictions were less optimistic than the ones analysts had expected, which caused its shares to drop by 2.8% on the day of the announcement (January 14th) and by about 5.7% until the end of the month.



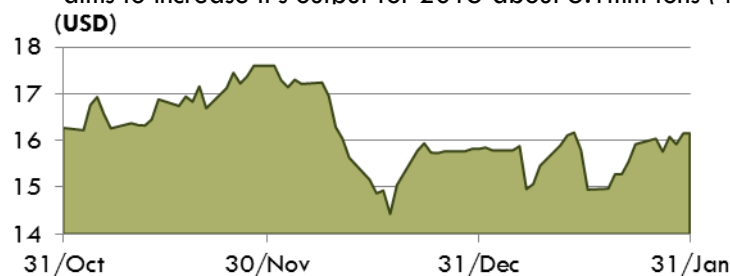
Price (USD):	↑ 33.12
Target Price (USD):	42.00
Up/downside:	26.8%
Performance 3M:	5.5%
P/E Ratio:	13.4x
ROC/WACC:	0.4x

Alcoa Inc.

(Ticker: AA US Equity)

Industry: Industrials

- Alcoa Inc. the largest U.S. aluminum producer expects worldwide demand to grow 7% this year due to increasing demand from car manufactures and aerospace industry. The boost in sales should mainly come from commercial Jets and a predicted 5.8% growth in US car sales.
- Its share price climbed about 58% over this past year, mainly due to risen aluminum prices, a strong dollar and a record sales in automotive aluminum sheets. The \$2.85bn acquisition of the aerospace supplier Firth Rixton Ltd. allowed Alcoa to shut down unprofitable production sides and to demand higher prices of an average of \$2,578 a metric ton, which equals an increase of 20% YoY. With high Premiums paid from customers to avoid waiting times, Alcoa aims to increase it's output for 2015 about 5.1mm tons (4.4 in China).



Price (USD):	↑ 16.15
Target Price (USD):	20.00
Up/downside:	23.8%
Performance 3M:	-3.6%
P/E Ratio:	18.7x
ROC/WACC:	0.3x

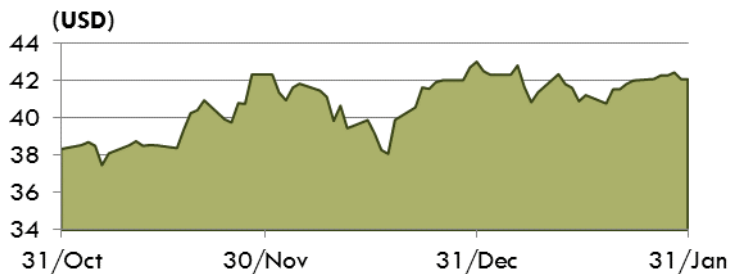
2. Followed Companies

Kinder Morgan Inc.

(Ticker: KMI US Equity)

Industry: Energy

- US's fourth largest Energy Producer Kinder Morgan reported its first quarterly results after the \$76bn merger with El Paso Pipeline Partners and affiliated Kinder Morgan companies. We can see that Kinder Morgan performed relatively well, given the shrinkage of oil and gas prices. Management predicts adjusted EBDA of about \$8.2bn up from \$7.5bn in 2014.
- However, these expectations assume an average WTI crude oil price of \$70 per barrel and \$3.8 per MMBtu natural gas in 2015. The management reports that a \$1 change in WTI has a \$10m impact on DCF respectively a \$0.1/MMBtu change with an effect of \$3m on DCF Valuation. Especially the carbon dioxide business appears to suffer from the dip in oil and gas prices.



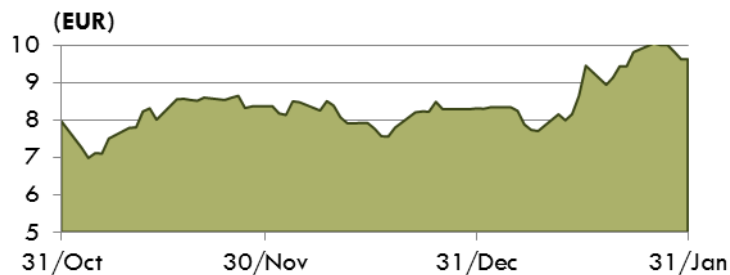
Price (USD):	↑	42.07
Target Price (USD):		47.00
Up/downside:		11.7%
Performance 3M:		8.7%
P/E Ratio:		58.9x
ROC/WACC:		-0.2x

Jerónimo Martins SG

(Ticker: JMT PL Equity)

Industry: Retail & Consumer Goods

- Jerónimo Martins recorded an all time record in sales of €12.7bn for fiscal 2014. This figure exceeds the 2013 sales of €11.82bn by 7.2%.
- 66.5% of total sales, which amounts to €8.43bn were generated in Poland by Jeronimo Martins' affiliate Biedronka. Polish sales grew by 9.5%. Also, the Portuguese company Pingo Doce increased its sales YoY by 1.7% and displayed a total revenue of €3.23bn for 2014.
- The news had a positive impact on Jerónimo Martins' shares that – at the day of announcement – jumped by 7.55% up to €9.29. Throughout the month of January, the shares' value increased by about 13.2%.



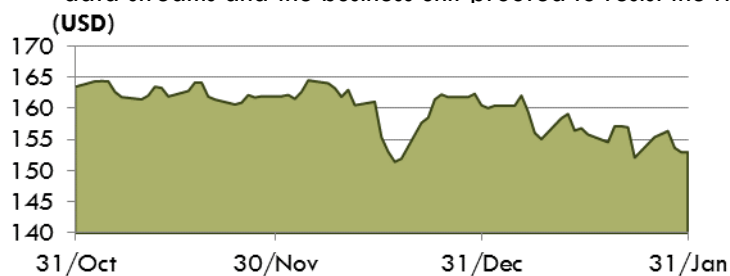
Price (EUR):	↓	9.62
Target Price (EUR):		8.75
Up/downside:		-9.0%
Performance 3M:		37.8%
P/E Ratio:		18.8x
ROC/WACC:		1.5x

IBM Corp.

(Ticker: IBM US Equity)

Industry: TMT

- IBM reported declining revenues in the 11th consecutive quarter, down 12% compared to Q3 2014, due to divestures and declining growth in the domestic market. Profits from a turnaround are not expected before 2016. The operating earnings per share forecasts lays in a range from \$15.75 - \$16.50 and thus mostly undercuts Wall Streets expectations of \$16.50.
- IBM faces hard declines of its hardware business, down about 11%, while the key business pillar remains its mainframes business accounting for around a third of IBM's profits. Mainframes are mainly used in telecommunications and by banks to process high volumes of data streams and the business unit proofed to resist the rise of cloud computing.



Price (USD):	→	152.96
Target Price (USD):		160.00
Up/downside:		4.6%
Performance 3M:		-7.0%
P/E Ratio:		9.3x
ROC/WACC:		2.8x

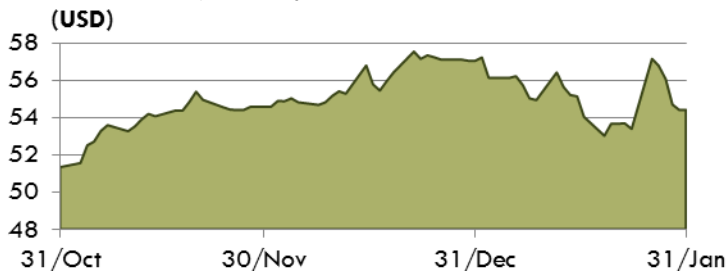
2. Followed Companies

eBay Inc.

(Ticker: EBAY US Equity)

Industry: Retail & Consumer Goods

- eBay announced in January to spin out or sell the division that works with other retailers to manage their e-commerce operations and simultaneously cut 2,400 jobs. The lay-offs (planned for Q1 2015) equals 7% of eBay's total workforce.
- Google, Amazon and Facebook are potential buyers as Apple Pay's entry into the mobile payment sector has forced them to reconsider their strategies in this market. The Mobile payments market is rapidly growing (58.0% in Q4 2014).
- Besides, eBay displayed a 9% rise in sales to \$4.9bn in Q4 2014. The company's net income increased by 10% to \$936m. That profit slightly exceeded Wall Street's forecast (\$910m on sales of \$4.93bn).



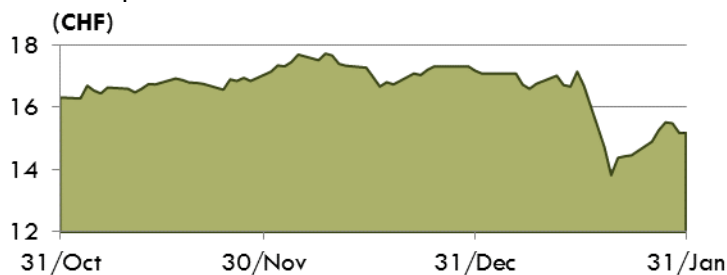
Price (USD):	↑	54.40
Target Price (USD):		59.50
Up/downside:		9.4%
Performance 3M:		3.6%
P/E Ratio:		22.6x
ROC/WACC:		0.0x

UBS Group AG

(Ticker: UBSG VX Equity)

Industry: FIG

- SNB's decision to give up the peg to the euro led to disruptions in the Swiss equity market, with UBS, dropping 12% on the day of the announcement. The overall damage is not yet quantified, but as other banks UBS announced not having suffered trading losses, however the impact on the business is long term related. Much like accounting losses, since profits generated abroad will be converted into Swiss Francs and impair the results.
- Further negative news included the \$14.4m SEC settlement for the failure to disclose information regarding order types in dark pools, the largest fine ever imposed in such a case. The bank also lost two of its blue-chip corporate broking clients BAE Systems and Smith & Nephew.



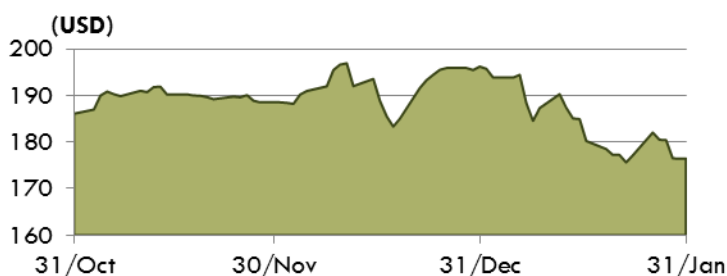
Price (CHF):	↑	15.18
Target Price (CHF):		18.90
Up/downside:		24.5%
Performance 3M:		-9.1%
P/E Ratio:		16.3x
ROC/WACC:		0.5x

Goldman Sachs Inc.

(Ticker: GS US Equity)

Industry: FIG

- Goldman Sachs' net income fell by 7% to \$2.2bn during Q4 2014. EPS fell by 5% to \$4.38. These figures are still higher though than analysts' forecasts, as they had expected net income of \$2bn and EPS of \$4.36.
- Revenues in fixed income trading, which has previously powered Goldman's earnings, fell by 29% in the Q4 to \$1.2bn, or 19% after stripping out a 2013 gain from the sale of Goldman's European insurance business.
- The weak trading revenues – that also many other banks displayed for Q4 2014 – have mainly been caused by the markets' volatility in the end of the year.



Price (USD):	↑	176.44
Target Price (USD):		195.00
Up/downside:		10.5%
Performance 3M:		-7.1%
P/E Ratio:		9.8x
ROC/WACC:		1.0x

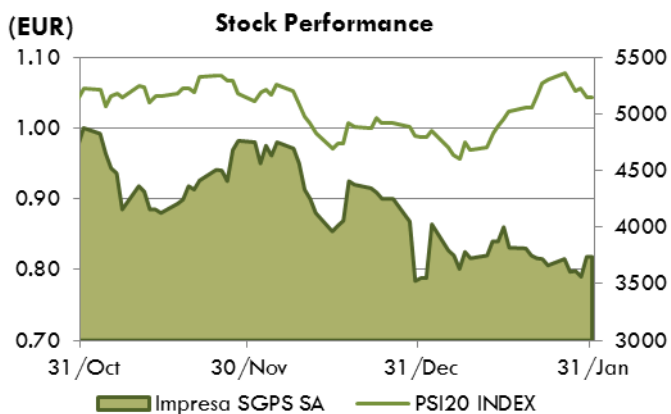
3. Detailed Review - Impresa

Company Overview

- Impresa is one of the biggest media groups operating in Portugal. Its activities range from television broadcasting in its free-to-air channel SIC and a big array of cable channels, to the publication of the leading Portuguese weekly newspaper Expresso and a selection of magazines.
- About half of Impresa's turnover is advertisement revenues, meaning the company is very exposed to the advertising market. The advertising market in Portugal is decreasing in value since 2008 as a consequence of the financial crisis, resulting in a challenging scenario for Impresa's business.
- SIC is a top performer in the television market, occupying consistently the first or second spots in the podium of TV stations with the most audience in weekdays prime time. The most popular products are the Portuguese soap operas (produced by SIC), a segment in which Impresa is a market leader. Impresa also outsources this type of content to other TV channels.
- Also through the SIC brand, Impresa is present in 14 countries where it offers Portuguese spoken cable channels, a strategy that is thought to be a sound bet in the future.
- The Expresso newspaper is a very well known brand in the Portuguese press, with an approximate 7.5% share of the generalist newspapers market. Although circulation revenues fell in the third quarter of 2014, Expresso is adapting its business model to the new realities of the publishing industry with the introduction of Expresso Diário. This is the daily online segment of the weekly printed newspaper, a project that has proven successful with an year-on-year growth rate of 41.8% on sales.
- Besides its operating activities, Impresa is engaged in a number of ventures, such as digital mapping (InfoPortugal) and technological solutions for hotels and cruise ships (Nonius). It also is a shareholder of Vasp, the leading Portuguese publishing distributor.

Corporate News

- Last October Impresa issued €30m in bonds with 4 years' maturity. The issuance comes as a move to comply with the company strategy of restructuring its debt burden. The 4% spread over the 6 months Euribor of debt cost was regarded as a success. Impresa is undergoing a decrease of debt policy, being already able to cut 25% of the debt as of 2008.
- Impresa posted a negative net income of about €380,000 for the third quarter of 2014. Despite the underperformance in this quarter, net income for the first 9 months of 2014 more than doubled when compared to the homologous period, reaching €5.5m.
- Impresa's shares (which entered the Portuguese main index PSI 20 in March 2014) show a downward trend in their price over the last 3 months. The same trend cannot be directly observed in the PSI 20 index. Despite the gloomy performance, analysts' consensus is that the stock will gain value.



Impresa (EUR)	
Current Price (31/01/2015)	0.82
52-week high % change	-59.1%
Median Target Price	1.55
Market Capitalisation (mn)	137
Return on Common Equity	8.8%
Dividend Yield	n/a
Beta (vs. PSI20)	0.92x
Total Debt/Equity	158.2%

Comparable Analysis

Company Name	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
Impresa SGPS SA	EUR	136	334	1.6x	1.4x	1.4x	1.0x
Cofina SGPS SA	EUR	53	121	1.3x	1.1x	1.1x	2.5x
Grupo Media Capital SGPS	EUR	162	289	2.6x	n/a	n/a	1.3x
Gruppo Editoriale L'Espresso S	EUR	488	535	0.7x	0.8x	0.8x	0.8x
Mediaset SpA	EUR	4,912	6,561	1.5x	1.9x	1.8x	n/a
Atresmedia Corp de Medios de C	EUR	2,953	3,052	3.3x	3.4x	3.2x	n/a
75th Percentile				1.6x	1.9x	1.8x	1.6x
Median				1.6x	1.4x	1.4x	1.2x
25th Percentile				1.4x	1.1x	1.1x	1.0x

- We chose a set of five European traded stocks for the purpose of this analysis. When comparing the current P/E ratios and EV/Sales multiples, it is suggested that Impresa is correctly valued when compared to the market. As for EV/EBITDA we could infer that Impresa seems overvalued. One reason that might explain this result is the market being confident that Impresa remains operationally stable, even though last quarter's trailing twelve months EBITDA was the worst out of the last 3 quarters.
- When compared with the closest competitor according to EV (Grupo Media Capital SGPS) it's interesting to note that although Impresa generates more revenue per unit of EV, Media Capital shows itself as more efficient in its operational cost structure as it displays a lower EV/EBITDA multiple, suggesting a higher level of EBITDA when compared to Impresa. This result gives the idea that either Impresa has a high level of fixed costs or there might be strategies to improve the EBITDA margin.

Analysts Corner

- Impresa's business has a great amount of cyclicality embedded in it. This can be confirmed by the observation of the past quarterly reported EBITDA, for instance. For that reason, quarterly net income being negative is not a rare event. This would lead to a negative EPS figure, which invalidates the usage of P/E multiple for valuation purposes.
- As such, we chose EBITDA and Sales and their respective EV multiples to conduct our analysis, for they're more consistent in Impresa's case.
- Our target price is more conservative than the market consensus. This supports our view that Impresa faces a great number of challenges in the near future, mainly in its publishing business. Publishing makes up for 26.6% of total turnover (2013 figures) and we defend the position that the digital platforms should undergo a more thorough development in order to compete in the new framework of digital media, so as to compensate for the anticipated decrease of revenue from printed publications.
- We estimate an upside probability of about 33% for our target. According to our model, the probability of over performance of the consensus price is about 15%.

Target Price (EUR)	
Current Price	0.82
Consensus Target Price	1.55
NIC's Target Price	0.84

EBITDA € M (quarter)	
Current	3.42
Market Estimate	11.93
NIC's Estimate	9.50

EV/EBITDA	
Current	12.6x
Market Estimate	11.13x
NIC's Estimate	11.80x

Sales € M (quarter)	
Current	52.53
Market Estimate	68.86
NIC's Estimate	60.00

EV/Sales	
Current	1.64x
Market Estimate	1.40x
NIC's Estimate	1.44x

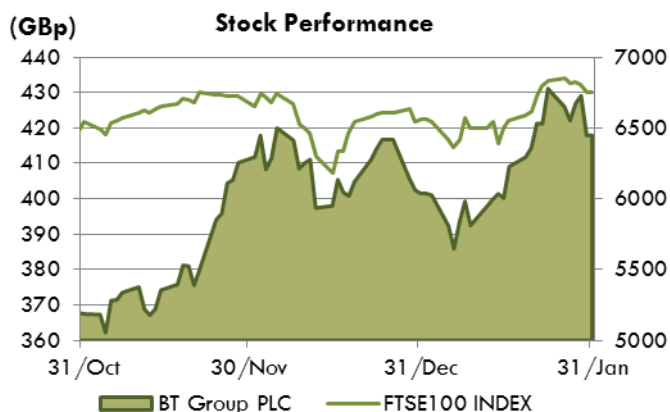
3. Detailed Review - British Telecom

Company Overview

- British Telecom (BT) provides telecommunication services for households (broadband, TV, phone) and business clients (mobile, security, networked IT and voice services). One of the strategic goals of BT is to take fibre broadband to at least 90% of UK's premises.
- It is based in London and employs around 88,000 people. Most of BT's revenues come from the UK (77%, £14.1 billion) and 14% from the rest of Europe. Even though its presence is not as strong in the Americas and Asia Pacific, BT has been increasing its resource allocation to these regions. As a result, revenues have increased 2.8% and 6.8% during the past 3 years, respectively.
- BT's total revenues have decreased from £20.9 billion in 2011 to £18 billion last year. Still, the firm has improved its margins from 29.3% EBITDA margin in 2011 to 34.2% in 2014, more than compensating the decrease in revenues with efficient cost cutting. Moreover, BT has generated more cash from operations and spent less on CAPEX. This contributes to the establishment of BT as a very robust company in the recent years.
- In the summer of 2013 BT Sport was launched. For the next three years, through BT Sport, the group will exclusively broadcast the matches of the Champions League and Europe League. This comes as one of the examples to BT's strategy to improve its sports content offers.
- Regarding M&A activity, the firm acquired the legal tech provider Tikit for £64.2 million in 2012 which was, at the time, its biggest acquisition in years. BT has 91 recorded M&A transactions, totalling £38 billion.

Corporate News

- On 15 December 2014, British Telecom announced its biggest acquisition on record, planning on acquiring EE from Orange and Deutsche Telekom for £12.5 billion. The payment would include a combination of cash and issue of shares, with Orange holding 4% and BT 12% stake.
- EE is a UK mobile business that would allow BT to own the most advanced 4G network, giving it prospects of product innovation and future investments. EE counts on 30 million customers and its coverage reaches 75% of the population. BT would have the opportunity to become dominant in "quad-play": broadband, fixed-line telephone, TV and mobile. This acquisition points towards the convergence of telecommunications in Europe.
- On January 30, the firm announced its Q3 results. Analysts expected EPS of £7.8p and the reported were £8p. Even though the surprise was positive, BT also reported a deficit in its pension fund.
- On the day of the announcement of the acquisition, investors reacted well: stock price increased by 1.96%.
- Upon the earnings announcement and pension fund shortfall, share price decreased by 2.38%.



British Telecom (GBP)	
Current Price (31/01/2015)	413.10
52-week high % change	-5.2%
Median Target Price	470.00
Market Capitalisation (mn)	33,648
Return on Common Equity	n/a
Dividend Yield	3.1%
Beta (vs. PSI20 INDEX)	0.92x
Total Debt/Equity	n/a

Comparable Analysis

Company Name	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
British Telecom	GBP	33,648	40,359	16.3x	6.3x	2.2x	n/a
Telefonica	EUR	60,311	112,318	13.9x	6.1x	2.1x	2.4x
Telecom Italia	EUR	18,506	52,287	34.9x	6.3x	2.8x	1.1x
Jazztel	EUR	3,220	3,618	41.6x	17.8x	3.2x	6.8x
Elisa OYJ	EUR	3,944	4,926	16.7x	8.8x	3.2x	4.3x
TeliaSonera	SEK	219,752	297,487	15.1x	8.1x	2.9x	2.0x
75th Percentile				30.3x	8.6x	3.1x	4.3x
Median				16.5x	7.2x	2.8x	2.4x
25th Percentile				15.4x	6.3x	2.4x	2.0x

- The multiples analysis of the P/E, EV/EBITDA and EV/Sales positions British Telecom around the 25th Percentile, suggesting that the firm is undervalued when compared to the chosen peers. Telefonica, in turn, is the firm with lowest multiples. This may be explained by the fact that both firms are facing structural changes in their business and markets where they operate, whilst Telecom Italia, for instance, has been more stable in the past months. Investors are still sceptical about what is to come.

Analysts Corner

- NIC's estimation method resulted in a £414.92p target price, a value averaged out from the £378.80p price computed based on Sales and £451.04p price based on EBITDA.
- According to this estimate, Sales next quarter will continue the decreasing trend, whilst EBITDA will not decrease as much. This tries to capture the effects of the improvement in margins that industry players are constantly trying to achieve.
- Even though NIC's estimate is close to the current price, analysts believe that BT is undervalued and estimate that the fair target price is £470.00p instead of the current valuation.
- Analysts consensus on undervaluation of BT might have an origin in the upcoming acquisition of EE. It is expected the transaction is bringing good amount of value into BT, which would explain the case.
- NIC's target price is calculated not having the mentioned transaction into account, as it is based on past fundamental variables. Therefore it should be interpreted as the price of BT net of the effects of the EE purchase.

Target Price (GBP)	
Current Price	413.10
Consensus Target Price	470.00
NIC's Target Price	414.92

EBITDA £ M (quarter)	
Current	1,567.00
Market Estimate	n/a
NIC's Estimate	1,550.00

EV/EBITDA	
Current	6.34x
Market Estimate	n/a
NIC's Estimate	7.1x

Sales £ M (quarter)	
Current	4,475.00
Market Estimate	n/a
NIC's Estimate	4,300.00

EV/Sales	
Current	2.19x
Market Estimate	n/a
NIC's Estimate	2.15x

4. Mergers and Acquisitions

Announced Date	Target		Buyer		EV		
	Company	Country	Company	Country	(mn)	EV/EBITDA	EV/EBIT
23/01/15	Telefonica UK Ltd	UK	Hutchison Whampoa LTd	HK	£ 10,175.00	n/a	21.0x
14/01/15	BlackBerry Ltd	CN	Samsung Electronics Co Ltd	KS	\$ 7,072.64	24.1x	n/a
16/12/14	Talisman Energy Inc	CN	Repsol SA	SM	\$ 12,949.33	5.9x	54.0x
15/12/14	EE Ltd	UK	BT Group PLC	UK	£ 12,500.00	9.0x	147.1x
01/12/14	PT Portugal SGPS SA	PT	Altice SA	FR	€ 6,900.00	n/a	44.7x

- Global M&A activity in 2014 jumped to figures never seen since the crisis started, representing the biggest year for M&A activity since 2007, with over 40,000 tracked transactions totaling approximately \$3.5tn in value.
- US has finally reached M&A levels pre-recession, reaching \$1.4tn in 2014. Despite global concerns, the main drivers for this outstanding year in terms of M&A activity were low interest rates, record stock prices, employment rate improvement and an abundance of cash.
- Regarding Europe, M&A is also likely to continue to accelerate throughout 2015. Although many European economies still face some challenges, European M&A activity grew around 50%, representing almost a quarter of the global transaction volume. An important driver for this phenomenon was the cross-border activity which involved Europe, especially in the pharmaceutical industry.
- Regarding the latest transactions, we provide the most relevant deals, such as: Telefonica UK vs Hutchison, BlackBerry vs Samsung, Talisman Energy vs Repsol, EE vs BT Group and finally PT vs Altice.
- On 23th of January of this current year, Hutchison Whampoa Ltd announced that it has entered into exclusive negotiations with Telefonica SA to acquire Telefonica UK Ltd (O2 UK). The Sunday Times reported that O2 UK was valued up to £9.5bn. Competing bidder BT Group decided to bid also for EE Ltd, having now to name its preferred target.
- At the beginning of December of 2014, it was said that BlackBerry received an offer by Lenovo Group, which was rejected due to Western government's regulatory concerns. However, according to Reuters, Samsung may make an offer for BlackBerry of \$15,49 per share, which represent a premium of 60% over BlackBerry's current trading price. If this transaction goes forward, Samsung will have to buy 100% of the company and then shut down what they don't need. By acquiring BlackBerry, Samsung would be able to make greater inroads into the corporate market, where it has trailed rivals.
- By the end of last year, Repsol announced its largest energy deal in Canada by acquiring the Canadian company Talisman Energy, which is expected to be completed by mid of 2015. This deal is considered the cheapest among the five largest oil and natural gas purchases in North America last year. "With crude prices close to the lowest since 2009, Repsol avoided a lofty offer as oil plunged", says Reuters.
- BT Group confirmed exclusive talks about acquiring EE, the UK mobile business owned by Orange SA and Deutsche Telekom. According to Citigroup, EE currently holds 33.8% of the UK mobile market revenue. The move for a BT takeover would create a communications giant across markets, such as home phone, mobile phones, broadband and even TV services.
- By the end of last year, Oi SA has approved the offer from Altice SA for the Portuguese assets. In 22nd of January of this year, PT shareholders approved the sale to Altice. The sale marks the effective unwinding of a merger between PT and Oi which had as a main goal the creation of a major transatlantic operator in the Portuguese-speaking world reaching over 100 million clients. Moreover, since Altice already own Cabovisão and Oni, this acquisition will initiate a market consolidation, witch translates into an expected market share of approximately 57% in home phone lines, 56% in broadband and 49% in TV services.

The NIC Fund

Student-run Virtual Fund - January



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1. Macro Outlook

OVERVIEW

- The most important market driving factor comes from the European Central Bank, which has planned a program of asset repurchase of €60bn per month until at least September 2016.
- The price of Oil has fallen below \$50 a barrel and does not seem to be breaking its downward trend.
- Alexis Tsipras, leader of the leftist party, won the Greek presidential elections.
- Japanese inflation slowed further last month, the danger of a slide back into deflation becomes more serious.
- China is slowing, Russia cut its interest rate and Brazil faces its first primary deficit in the last decade.

US & Canada

- The ISM's manufacturing index fell to a one year low of 53.5 from a reading of 55.1 in December. Another report also showed that consumer spending in December also fell after rising in the two prior months. Pending home sales in the United States fell by 3.7% in December as American home ownership fell to the lowest level in 20 years.
- The safe-haven yen strengthened against the dollar and gold's price, historically negatively correlated with the American currency, has rallied more than 7% this year.
- As Canada has the world's third-largest oil reserves, Bank of Canada cut its rates from 1% to 0.75% in order to offset the impact of falling crude prices on its economy. The Bank of Canada became the first central bank to cut the interest rate in response to the decline in the oil price. The decision was totally unexpected, according to Bloomberg economists. The aim of the Bank is to delete any 'deflationary concerns'.

Europe

As a result of the QE program, European equities are showing a positive signs. Despite Greece's falling stock prices – in three days from Tsipras' election the Athens Stock Exchange lost 16% - there's no evidence of contagion to other European countries. This is explained by the fact that Syriza's election had been widely predicted. Greece is in a precarious situation and the risk of the "Grexit" from euro is increasing. In 2015 Greece will owe €11bn to the International Monetary Fund and €6bn to the ECB. The spread with German bunds rose to 974 basis points, the maximum in two years, and the Greek's debt has reached the monster amount of €315bn, which represents the 175% of their GDP.

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The NIC Fund

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Moving out from the Eurozone, the Swiss Franc, one of the world's most important safe haven currencies, shot up 30% against euro in a morning. Three years ago the Swiss National Bank put in a place a ceiling of Sfr1.20 per euro to stop the currency's appreciation, which was causing problems for Swiss exporters. With a general surprise, the SNB has decided to abandon the ceiling, due to the expected ECB's QE, that is likely to increase demand for safe haven currencies like the Swiss Franc.

Asia

Some economists are now bearish about Japanese inflation, which sums up the effort of the monetary and federal Japanese policy to avoid stagnation. The strong QE announced in late 2014 has not had the impact that was expected. The rise in underlying prices is the lowest in the last 18 months. The fall in the oil price has offset the effects of the Japanese domestic activity, which lately recorded a slight growth. The deceleration underlined the deep tensions after the fail of the aggressive monetary policy currently adopted. Abe demonstrated to be disappointed with the result from the industrial activities. Analysts and economists believe that inflation should pick up as soon as the labor market shows improvement. Right now, the numbers say that the Government and the Central Bank have been backing away from their pledge of 2% inflation in the next fiscal year which is currently at 0.4%.

Emerging Markets

- China's economy is not growing as fast as expected, its growth forecast was cut from 7.1% to 6.8% by the IMF.

The driver of this decline comes from the construction sector which seems to be too leveraged. The over-borrowing and over-building problems are reducing the growth rate. Last year's official growth rate of 7.4% was the slowest pace since 1990. The danger of a downturn in the real estate is becoming a real threat as credit and construction are continuing unabated while growth is getting slower.

- The Russian Central Bank has lowered their main refinancing operation rate to 15%. Russian sovereign debt has just been downgraded by the S&P to 'junk'.

- Brazil has announced its first primary budget deficit

The deficit, as announced by the Central Bank on Friday, equals 0.63% of the gross domestic product, for the first time in this decade. This deficit underlines the difficulty for the second biggest emerging market to go back on the path to growth. The attention now is on the austerity measures which are likely to be adopted. However, analysts focus on how spending cuts will not be easy mainly because of the fiscal picture of the country.

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2. Fixed Income, FX and Commodities

Super Mario Draghi's effects

- The overall portfolio lost 1.9% last month, mainly due to the more-than-expected euro's weakening. I decided to close all my positions and take advantage of the ECB's QE and the consequent effects over the euro.
- Central Bank of Russia's actions are not aiming to stop the rouble's free fall. Moscow has just decided to cut interest rates from 17% to 15%, as it is prioritizing economic growth over the fight against inflation and the rouble's short-term stability. I believe that the ruble will keep falling, and I open a long position on USD/RUB.
- As consequence of ECB's monetary policy, there is a renewed demand for a safe haven asset. Gold has rallied more than 7% since the beginning of the year, and such strengthening should continue. I feel bullish on the gold's price, now at \$1,265 an ounce, opening a long position on it.
- One of the first QE's effect will be the euro's weakening. I keep betting on the dollar's strength and I open a short position on the EUR/USD exchange rate.

Time to bet on European Periphery

- The portfolio overall performed pretty good in the last trading period. The weighted return is 9.61%. The more significant trade was the short on RUBUSD, which recorded a return of 30% between early December and the end of January. I decided to keep it in my portfolio because I am still confident in this trend. Both US and Russian monetary policy makes me think that: the former is tighten the dollar while the latter has cut the interest rate even though the speculative attack against its currency. Then I decided to close the Japanese Bond position even though the QE is still on-going.
- I am now focused on the ECB QE which seems more interesting. There are two main opinion about how the new ECB policy will affect the fixed income. I agree with the ones who think it's time to be bullish on periphery nations. I expect a rally of both Italian and Portuguese Government Bonds and the spread with the 10Y Bund to become smaller for both.
- Portuguese Bond have jumped, pushing yields down to record lows in the last period. Investors are betting on Draghi's success. I am interested in capital gain, and therefore confident the bond prices will go up.

Analyst: Andrea Ricciardi
andrea.ricciardi@novainvestmentclub.com

Trade Summary:
Short 40% EUR/RUB
Long 20% Gold
Short 40% EUR/GBP

Asset Class: Currencies, Commodities

Analyst: Edoardo Colella
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Trade Summary:
Short 33% RUB/USD
Long 33% BTP Italy 10y
Long 33% BPOR 10Y

Asset Class: Bond, Currency

QEasy!

- This portfolio has gained 7.45% since the beginning of the trades. The main drivers of the positive performance comes from the long USDAUD trade as it has gained 10.35% and the short EURUSD trade which has had a positive performance of 9.45% since the 10th of November.
- With the announcement of the ECB's QE I believe that the contingent convertibles within the Algebris Fund will gain in value as previously discussed. For the EURUSD the QE will also have a positive impact on the short position on the EURUSD and the long position on the GBPEUR.
- Essentially the QE program that was announced will aid my previous positions and thus will continue the previous investment strategy.

3. Equities

Earnings play

- Last trading ideas yielded a positive return of around 6%. The main contributors to this performance were the 20% short position on the Russian stock market and the 50% long position on the Euro Stoxx 50 both of them through ETF's.

• As the new Greek government starts to increase volatility in European capital markets by fighting with its creditors about the austerity politics, I will close my long position on European Indexes (Euro Stoxx 50 and the German DAX) and implement more selective strategies based on:

- 1-Weaker Euro;
- 2-Greek uncertainty;
- 3-QE.

1- The weakening of the Euro is a clear catalyst for European exporters. Therefore, I will open a small long position of 10% in 6 German and French exporting companies with significant revenues coming from outside Europe namely the US. I chose a basket of companies with earnings announcements scheduled for February in order to enjoy possible better-than-expected 2015 outlooks. Those companies are Beiersdorf, Puma, Bayer, BASF, Michelin and L'Oréal.

2- In the following weeks I believe uncertainty will drive Greek stock market down and therefore I will open a short position of 20% in Global X FTSE Greece 20 ETF (GREK:US).

3- QE will start in March and my opinion is that the first companies who will benefit from it are banks. I will consequently open a long position of 20% in iShares MSCI Europe Financials ETF (EUFN:US).

• Regarding the other 3 assets I have in the portfolio (ETF's on Japanese, Russian and Indian Indexes) I will rebalance them. 30% long position in iShares MSCI India ETF (INDA:US), 30% long position in iShares Nikkei 225 ETF (1329:JP) and keep the 20% short position on Russia in Market Vectors Russia ETF (RSX:US) as tensions between Russian and Europe and low oil price seem to continue around.

Analyst: Tiago de Fontes Pereira de Mello
tiago.mello@novainvestmentclub.com

Trade Summary:
Short 33% EUR/USD
Long 10% GBP/EUR
Long 33% USD/AUD
Long 24% AFCIEUR ID Equity

Asset Class: FX
Region: Europe; US, Australia

Analyst: João M. Cunha
joao.cunha@novainvestmentclub.com

Trade Summary:
Long 10% BEI:GR
Long 10% PUM:GR
Long 10% BAYN:GR
Long 10% BAS:GR
Long 10% ML:FP
Long 10% OR:FP
Long 20% EUFN:US
Long 30% INDA:US
Long 30% 1329:JP
Short 20% GREK:US
Short 20% RSX:US

Asset Class: Equities
Region: EMEA and Asia

European transportation and automotive revival

- The quantitative easing in Europe and the extremely low oil prices worldwide serve an important conjecture for a potentially good performance of transportation companies in Europe, as it is the case of the Danish Maersk (MAERSKB DC). Ryanair (RYA ID) will most likely benefit from the current levels of the commodity and Volkswagen (VOW GR) from the ECB expansionary politics.
- On the other side of the ocean, the opening of new stores in Canada as well as the continuously good performance of the US economy is what is on the basis of the fund's stake in Walmart (WMT). In fact, even though the US economy has grown below analysts' expectation in the fourth quarter of 2014, it is my opinion that the purchasing power in the USA will continue to grow, mainly because of the improving labor market. As such, the investment in real estate has still further room to grow, thus explaining my bet on the iShares Cohen & Steers Real Estate Investment Trusts ETF (ICF).
- Alibaba (BABA) has been disappointing investors with its recent poor performance and suspicions regarding sales of frauds and knockoffs, but China's most powerful Internet business is still looking for other locations to expand its operations and Yahoo's possible sale of its stake of the company might drive the price of the stock higher in the future.
- Once again, Apple (AAPL US) has taken the market by surprise with its above-expectations fourth quarter sales, to which the release of the iPhone 6 and Chinese consumers have undoubtedly played a major role. Similarly, the Apple Watch is already on the line and it might prove to be another iSuccess.

Testing European QE

- In regards to last month performance, my portfolio lost its 5% return mainly due to Michael Kors having plunged close to 6%, after Credit Suisse downgraded the stock rating from outperform to neutral with concerns about the increase in levels of promotions during Christmas time. iShares Russel 2000 ETF and iShares MSCI Europe Financials ETF had positive but close to zero return concerning my entry point.
- I will keep my position in Michael Kors because I believe the company provides solid growth and valuation looks attractive. It is a no debt no dividend company with a lot to grow, it has the lowest P/E among its peers and the highest profit margin in its sector, 30%. Also, next week Kors will present results which might be a good trigger, where I believe that the e-commerce plan that was launched last August will show for the first time if this was a good move.
- iShares MSCI Europe Financials is an ETF that seeks to track an index composed of European equities in the financials sector where 55% of the assets are banks. The reasoning behind this idea was the growing expectations for European QE program to start in early 2015, which I believed would boost mostly banks stocks performance. Since QE was launched, it has not performed as I was expecting to but I will wait until the end of the month to take some action. I will do the same with my position in iShares Russel 2000 ETF.

Analyst: Rita Brites
rita.brites@novainvestmentclub.com

Trade Summary:
Long 10% WMT
Long 30% VOW GR
Long 10% BABA US
Long 10% MAERSKB DC
Long 10% RYA ID
Long 20% APPLE
Long 10% ICF

Asset Class: Equities

Analyst: Miguel Leal da Costa
miguel.costa@novainvestmentclub.com

Trade Summary:
Long 50% KORS US
Long 30% IWM ETF
Long 20% EUFN ETF

Asset Class: Equities
Region: U.S and Europe

January Article

Do investors choose to lose money? Welcome to the world of negative bond yields.

What kind of market sets up a price in which there are no positive returns for buyer?

Is there any market in the world in which the buyer is effectively losing money and still decides to proceed with the trade? The answer is yes: bond markets.

Bond markets, like any other market, are driven by supply and demand, which set up an equilibrium price satisfying both the buyer and the seller. However, we live now in a strange world in which bond investors (money lenders) are willing to lend money and instead of demanding an interest on the amount they have lent, they pay the borrower what we know as the interest. According to JPMorgan, more than €1.5tn worth of Eurozone bonds are now trading in the markets with negative yields. Germany, Sweden, Netherlands, Japan and Switzerland are just some examples of countries that have recently seen their government bonds reaching negative yields. Even more surprising, is the fact that some corporate bonds such as Shell and Nestlé, which are riskier and thus harder to cross the 0% yield bound, have also crossed this boundary. The question is obvious: why would anyone pay to lend money to somebody else?

Turning negative in Europe

Value eurozone bonds with negative yield (€tn)



Source: JPMorgan via Financial Times

Well, what basic economics tells us is that in a free world, no trade would happen if there was not a win-win situation. In fact, as I will try to demonstrate, there are hidden benefits and reasonable reasons for which investors might want to own fixed-income assets with negative yields: safety purposes, positive returns in real terms, positive returns due to currency fluctuations and as part of a simple trading strategy.

Safety

The first observation one must acknowledge is that given the amounts of money involved, parking it physically is not possible so investors must park it somewhere. The flight to safety when there

is turbulence in capital markets is quite common. Typically when uncertainty gains momentum, many investors choose to allocate their funds in risk-free assets, pushing up bond prices and pushing down yields consequently. Investors usually prefer to lose a small percentage of their portfolio for sure than taking the risk of having a large loss in risky assets. When there is a lot of fear in the markets, yields might reach negative territory but that does not seem to be the case nowadays justifying why bonds yields are negative because not only short-term but also long-term bonds are being priced with negative yields.

Real terms

One more plausible reason has to do with inflation, more specifically inflation expectations. Inflation expectation is the main driver of long-term bond yields. When investors perceive a period with high-inflation, they will demand higher yields so that in real terms they do not lose money. In this deflationary environment fuelled by the lack of economic growth and accelerated by the sharp fall of oil prices, very low bond yields do not come as a surprise because as long as the bond yield is higher than inflation, investors are making a profit.

Central banks decisions

Central banks have the power to influence the short-term interest rate, by setting the rate at which banks can park their cash. To boost economic growth or inflation, the monetary authority usually uses this mechanism and cut interest rates so that banks have an economic incentive to lend to the real economy. Today, many central banks of developed economies have decided to impose negative deposit interest rate and that, alongside with very low inflation expectations, explain why short-term bond yields are negative.

Currency fluctuations

Even though currency is not usually subject of very intense discussion it can play a major role when computing returns in your home currency. It may well happen that investors lose money in foreign currency while making a profit if that foreign currency appreciates against his home currency. This appreciation might also be linked to different inflation expectations between different economies.

Trading Strategy

Despite the fact that all previous points

illustrate hypothetical reasons to why we observe negative bond yields in capital markets nowadays, in my opinion most of investors who own those bonds do not intend to hold them until maturity. If one expects the demand for any asset to increase in the future, he can also expect that asset's price to go up. This is true for bonds and more specifically in Eurozone countries government bonds due to the announced *quantitative easing* by the ECB, which will start in March. The point is simple, if investors expect bond price to go up further, why worry about negative yields?

All these are valid reasons for which bond yields might be negative. Currently, not only short-term government bond yields entered this territory. Netherlands, Finland and Sweden government bonds are trading with negative yields for periods longer than 5 years and in Switzerland, even a 13 years government bond has a negative yield.

Governments and individuals are pleased that their borrowing costs are so low but these abnormal rates are a clear sign that the economy is to remain stalled for quite some time.



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Upcoming Events

From	To	Event	Location
05/02/2015		EU Publishes Economic Forecasts	Brussels, Belgium
05/02/2015		BoE Monetary Policy Committee meeting and rate decision	London, UK
10/02/2015		The Buttonwood Gathering	New York, United States
12/02/2015	14/02/2015	Annual Teaching Economics Conference 2016	Pittsburgh, United States
12/02/2015		EU leaders hold summit	Brussels, Belgium
16/02/2015		Euro-Area Finance Ministers Meeting	Brussels, Belgium
17/02/2015	18/02/2015	BoJ Monetary Policy meeting	Tokyo, Japan

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