Newsletter

March 2015

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Investment Banking Report

NIC Fund

nic Nova Investment Club

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Investment Banking Report

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Companies
- Petrobras
- Oi
- BPI
- Apple
- CTT
- Lufthansa
- BT Group
- Credit Suisse
- easyJet

This month's detailed company reviews:
- Tesla Motors
- EDP Renováveis

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1. Macro Overview

With Germany's Dax index showing very positive results with leading German companies receiving a huge boost from low interest rates, sharply falling oil prices and a weaker euro increasing their foreign based revenues, even before the ECB started its €1.1tn QE program, this month's ECB forecast predicted a solid economic recovery in 2016 and 2017. ECB's purchase of sovereign bonds intend to lift inflation expectations which was forecasted to fall into the target of just under 2% within the next two years. As at this time the program was not yet in place, the results suggest that this optimistic trend follows the fact that everybody is now more confident.
These growth projections may also be a result of several combined factors that have been happening recently. As the world's largest net importer of oil and gas, the Eurozone has been largely boosted by fall in oil prices. Moreover, despite being a relatively closed economy, the effect of a fall in the euro's exchange rate has also been fairly sizeable. A very slow improvement in bank lending and a tight fiscal policy combined with the above points have temporarily pushed the growth rate up to about an annualized 1,5%.
To better assess the effectiveness of QE, one has to wait and collect the true impact on the real economy.

France, Germany and Italy have all agreed to follow Britain's lead and join a China-led $50bn Infrastructure Investment Bank which will be a potential rival to the Washington-based World Bank. Despite US efforts to keep western countries out of the new institution arguing that together they could have more influence over the mechanisms of the new bank and push for higher lending standards, the European decisions led Australia, a key US ally in the Asia-Pacific region to rethink their position. More than 50 countries have signed up including other traditional US partners like South-Korea and Israel.

While Larry Fink advises that the steep rise in the US dollar might undermine business confidence in the US leading the country's economy to a slowdown, the Federal Reserve prepares a rate rise policy. Furthermore, Stanley Fischer, the Fed vice-chair believes that the ECB's QE efforts should help US exports by boosting European growth despite some of the benefits will be offset by the recent dollar appreciation.

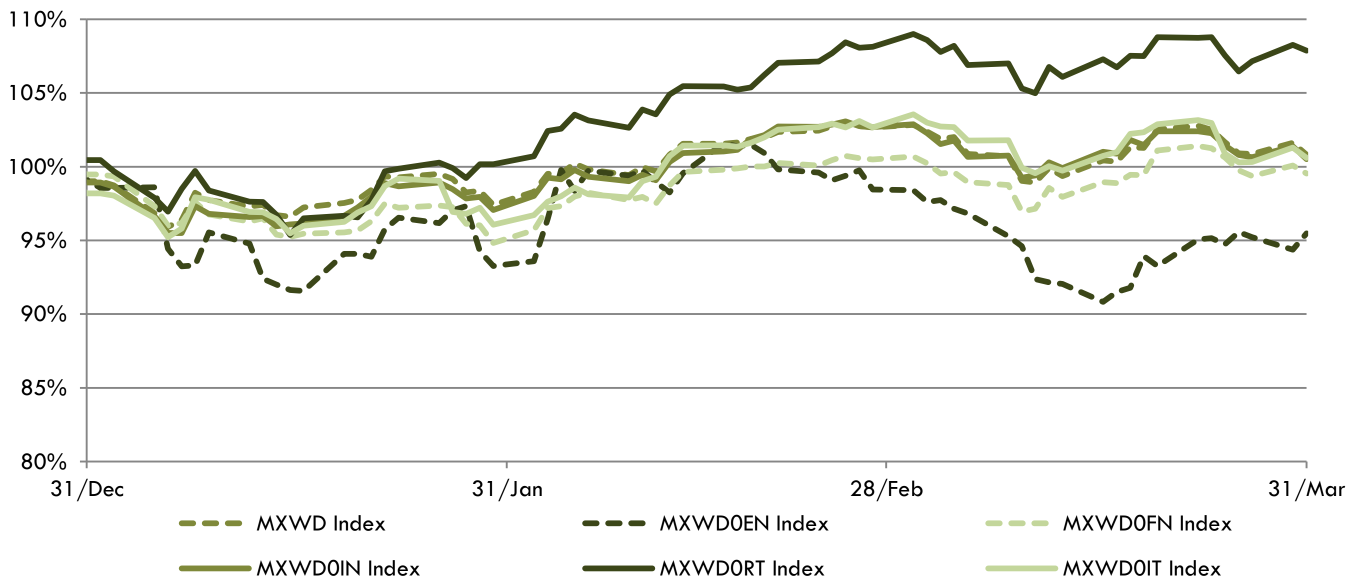
Despite Mr. Kuroda, Bank of Japan governor, acknowledged the potential for falling prices to jeopardize the 2% target inflation, BoJ maintained its position on monetary policy. Noting that the slide in prices without taking any action, the central bank is signaling that it is not too concerned about the oil shock and that it will not rule anything merely because oil prices have pushed inflation down.

Countries' Economic Data

Country	March Inflation (%)		Exchange Rate		Unemployment Rate (%)		10 Year Yield	
	MoM	YoY	USD	Monthly Change (%)			Current (%)	Montlhy Change (bp)
United States	0,22	0	1	-	5,57	Q1	1,883	-36
Eurozone	1,1	-0,1	1,0817	-0,25	11,47	Q4	0,186	-21
Portugal	-0,1	-0,21	1,0817	-0,25	13,50	Q4	1,631	-13
Australia	0,1	1,1	0,7637	-1,02	6,23	Q4	2,350	-29
Greece	-0,6	-2,2	1,0817	-0,25	26,00	Q4	11,508	210
United Kingdom	0,3	0	1,4823	-1,42	5,83	Q4	1,583	-37
Germany	0,5	0,3	1,0817	-0,25	6,47	Q1	0,186	-21
Brazil	1,22	7,7	0,3191	-2,30	4,60	Q4	12,797	-17

- In the table above the first thing you are likely to spot is while almost all 10y Treasury Yields decreased, the interest on Greece bonds went up by 210bp compared to last month. This clearly reflects the financial distress of the cash-strapped Greece government, who could barley cover its pension plan duties this March.
- On the currency side, we see that the BRL lost 2.3%, due to rising Inflation (up 1.2% MoM), slipping commodity prices, a strong USD and internal political conflicts about the Petrobras scandal and Ms Rousseffs's austerity programme.
- In the US unemployment rates remained constant at 5.6% and did not yet convince the FED to raise interest rates, amidst the growing Economy and the strong USD, appreciating between 0.25% - 1.42% against the mayor currencies.

Sectors' Overview

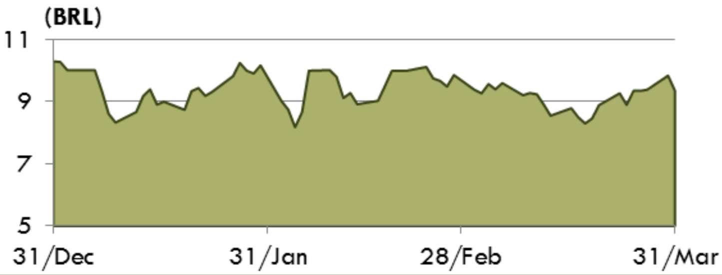


- The Retail index (MXWD0RT) keeps on outperforming the overall market, driven by low oil prices and upticks in consumer spending. Retailers keep on exceeding revenue goals, with brick-and-mortar retailers harvesting the profits of their e-commerce expansion. From a regional perspective the pickup of the US Economy, boosted retail sales and helped the index to perform ~7% better than the MSCI World (MXWD).
- The underperformance of the MSCI World Energy Index (MXWD0EN) is mainly due to the poor performance of oil companies. The index, track the oil price development with WTI down to a 6y-low of 43,57$/bbl in mid march. But prices are on the rise again after bombings in Yemen incite fear towards a proxy war between the Sunnite Saudi Arabia and the predominantly Shiite Iran.

2. Followed Companies

Petrobras SA
(Ticker: PTR4 BZ Equity)
Industry: Energy

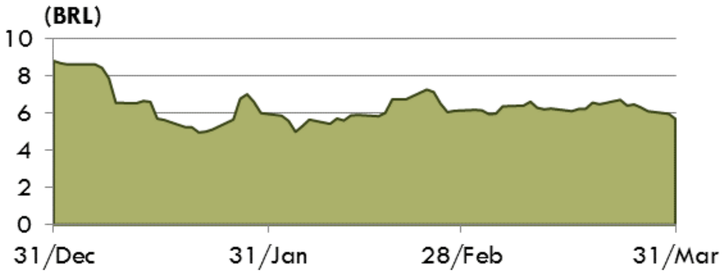
- Petrobras' shares have been in decay since September 2014 due to a multimillion dollar laundry scandal and fell almost 60% since then. This event has led the company's debt to be rated junk grade. However, President Rousseff's reassurance that the Report earnings will be out in April, and that the company will have a positive profit and for sure will distribute dividends, has triggered a stock price rebound.
- These statements are optimistic given the overall oil price volatility, the uncertainty of the new board of executives, the low P/E ratio of 7.1 compared to the industry average of 21.13 indicating a low growth expectation and a stock price that remains low given the lost of trust in the company.



Price (BRL):	↑	9.73
Target Price (BRL):		12.50
Up/downside:		28.5%
Performance 3M:		-2.9%
P/E Ratio:		7.1x
ROC/WACC:		0.3x

Oi SA
(Ticker: OIBR4 BZ Equity)
Industry: TMT

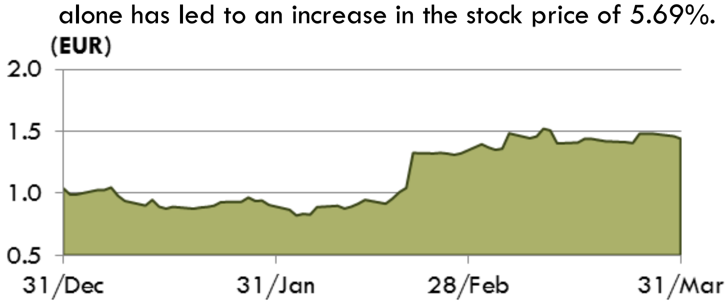
- Oi has seen a steep decline in the earnings per share during this past quarter.
- Nonetheless, the board of directors approved measures to strengthen shareholder rights that include the elimination of a complex controlling structure and giving non-voting shareholders the right to convert to voting shares. Plus, it announced the elimination of around 1000 jobs.
- The prospects are not promising and the earnings are expected to continue at low figures. Despite being inserted in an emerging market, the recent M&A trend, and ongoing regulatory liberalization and privatization have fueled competition in local telephone services markets. Moreover, there is a greater necessity to invest in infrastructure to burse into demand of wirelss data.



Price (BRL):	↑	5.13
Target Price (BRL):		6.83
Up/downside:		33.1%
Performance 3M:		-40.4%
P/E Ratio:		n/a
ROC/WACC:		0.3x

Banco BPI SA
(Ticker: BPI PL Equity)
Industry: FIG

- In March the Bank received many revelations. The results came out reviling that BPI was excluded from the second phase of Nova Banco acquisition. Moreover, Isabel dos Santos, the owner of Santoro (18.6% Stake of BPI) has officially promoted the merge between the BCP and BPI. Finally, CaixaBank has proposed an offer to acquire BPI for 1,329€ a share.
- All these options available to BPI require a great amount of investigation on which will create the highest value for the firm.
- The CaixaBank proposal seems to be undervalued and has led to a counter proposal of the acquisition for 2.26€ by BPI's board a share so it is still a viable option. These proposal alone has led to an increase in the stock price of 5.69%.



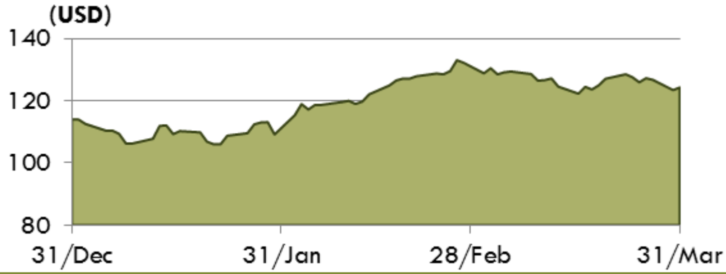
Price (EUR):	↓	1.42
Target Price (EUR):		1.23
Up/downside:		-13.9%
Performance 3M:		38.6%
P/E Ratio:		n/a
ROC/WACC:		0.8x

Source: Bloomberg (as of 31.03.2015)

2. Followed Companies

Apple
(Ticker: AAPL US Equity)
Industry: Technology

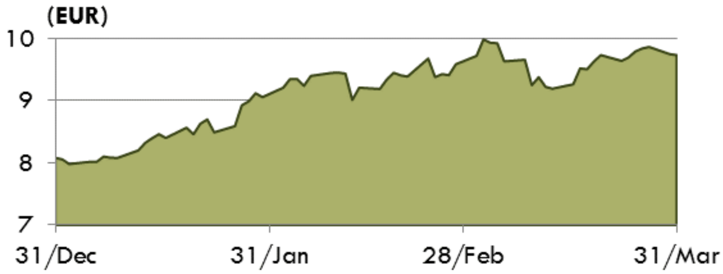
- On the 9th of March, the company announced the new MacBook and revealed the details about the so-awaited Apple Watch, which is expected to be on sale this month. On this day, the stock price increased by 0.43% to $127.14, with a decrease of 2% in the next day.
- The uncertainty around Apple Watch, the first device after Tim Cook succeeded Steve Jobs, is preventing higher returns. The launch was somewhat controversial in what regards the price range of $349-$17,000, which collides with luxury brands. To impress investors, Apple is attracting app developers and stressing the useful functions of the cheaper versions.
- Apple Watch is expected to be marked by a high margin, similarly to the 45% gross margin of Iphones, rather than sales volume. The target price of $145 entails good prospects ahead.



Price (USD):	↑	124.43
Target Price (USD):		145.00
Up/downside:		16.5%
Performance 3M:		12.7%
P/E Ratio:		17.2x
ROC/WACC:		3.2x

CTT
(Ticker: CTT PL Equity)
Industry: Transportation & Logistics

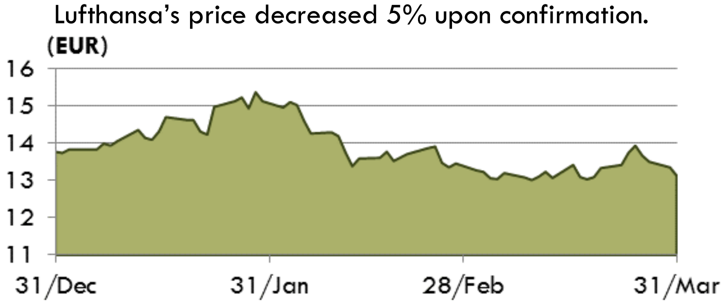
- On the 4th of March, CTT announced earnings of €77.2m in 2014, more 26.5% than in the previous year. These were the first full-year earnings release after the privatization, and surprised analysts positively by 6%. Stock price on this day increased 0.27%.
- Although the quantity of mail sent continues to decrease, the rate in 2014 was lower than in 2013: -5.7% versus -7%. Moreover, the 4.1% increase in the average price caused revenues from this segment to increase by 0.8%.
- The most important news comes from the consolidation of financial services, which grew 21.4%. Additionally, the firm expects an investment of $100m in the Mail Bank ("Banco Postal") in the next 5 years, eyeing ActivoBank as a strategic acquisition.



Price (EUR):	↓	9.98
Target Price (EUR):		9.40
Up/downside:		-5.8%
Performance 3M:		24.5%
P/E Ratio:		20.0x
ROC/WACC:		7.7x

Deutsche Lufthansa
(Ticker: LHA GR Equity)
Industry: Transportation

- Last year the firm reported 82% less profits than in 2013, of €55m. One of the drivers of the decrease were the losses in derivatives to hedge fuel costs – the decreasing oil price *era*. Shares were down by 2.5%.
- After the sharp fell in profits last year, Lufthansa is focused on becoming more competitive. The reason behind is the pressure from low-cost firms in Europe and Gulf Airlines on long-haul routes to Asia. One solution would be to offer more services under its budget Eurowings brand. The pilots are resisting the changes, which has cost €232m in strikes last year.
- On the 24th of March, an Eurowings airbus crashed in the French Alpes with no survivors. Lufthansa's price decreased 5% upon confirmation.



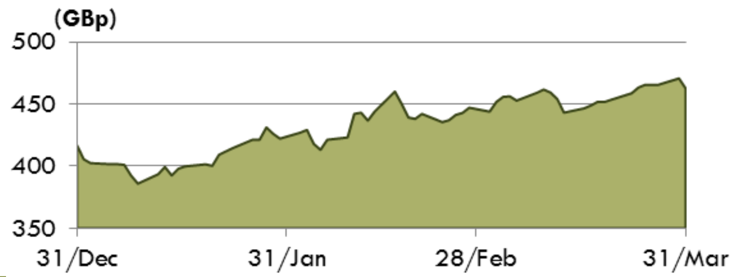
Price (EUR):	↑	13.04
Target Price (EUR):		13.90
Up/downside:		6.6%
Performance 3M:		-5.7%
P/E Ratio:		100.1x
ROC/WACC:		-0.6x

Source: Bloomberg (as of 06.04.2015)

2. Followed Companies

BT Group PLC
(Ticker: BT/A LN Equity)
Industry: Telecom

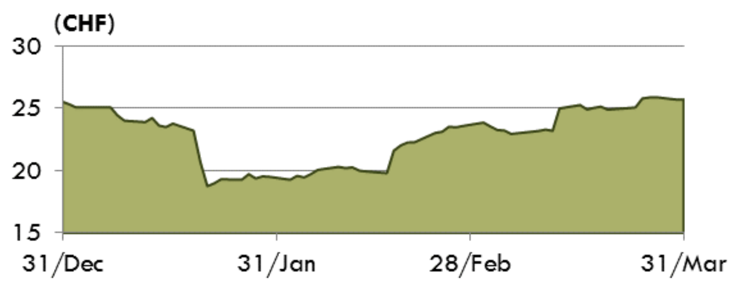
- Recently UK telecoms market have become more consolidated given the succession of mergers and takeovers such as O2 with Three and the BT's acquisition of EE. BT's already announced that expects to cut prices, given the increase of competition.
- BT's shares are trading at levels not seen since early 2001, outperforming the FTSE 100 since the beginning od the year.
- The £1bn raised funds (455p-a-share) to help funding the EE transactions is already reflected in the price. Analysts expect it to reach the target price of approximately £500, being currently undervalued mainly due to the uncertainty in the recent turmoil around it's acquisition impact in the market and the telecoms regulator verdict.



Price (GBp):	↑	438.00
Target Price (GBp):		497.50
Up/downside:		13.6%
Performance 3M:		9.1%
P/E Ratio:		17.7x
ROC/WACC:		1.9x

Credit Suisse
(Ticker: CSGN VX Equity)
Industry: FIG

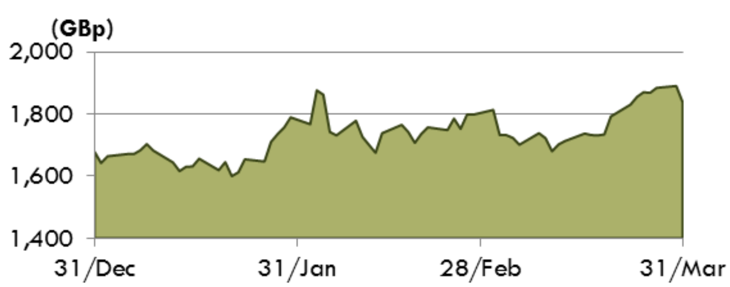
- Credit Suisse as named a new CEO, an insurance executive named Tidjane Thiam who is going to replace Brady Dougan once he steps down in June.
- According to the 1Q 2015 report released on mid April, they already anticipate revenues to be slightly lower this quarter than was previously expected, which may explain the fact that the consensus target price is lower than the current one.
- In February Credit Suisse reported 4th quarter earnings of 0.53 per share, which surpassed the consensus expectation of 0.47.
- CS analysts forecast a 4% YoY earnings growth among large cap banks.



Price (CHF):	↓	26.18
Target Price (CHF):		24.00
Up/downside:		-8.3%
Performance 3M:		4.4%
P/E Ratio:		27.9x
ROC/WACC:		0.5x

easyJet
(Ticker: EZJ LN Equity)
Industry: Airlines

- Given the favorable moves in FX rates, EasyJet will turn in a less bad performance for the 1Q2015 than expected, predicting a final result between a loss of £5m and a profit of £10m, instead of a certain loss between £10m-£30m.
- Despite the fact that they are expected to incur in losses in this first quarter, it is a track record for the company to make a loss in the 1Q, since it covers the winter period, which is offset by the following quarters.
- However, there is the risk of a new reverse in the exchange rates trend, a stronger euro against the dollar, impacting negatively the second half performance.



Price (GBp):	→	1,882.00
Target Price (GBp):		1,975.00
Up/downside:		4.9%
Performance 3M:		12.6%
P/E Ratio:		16.1x
ROC/WACC:		1.8x

Source: Bloomberg (as of 31.03.2015)

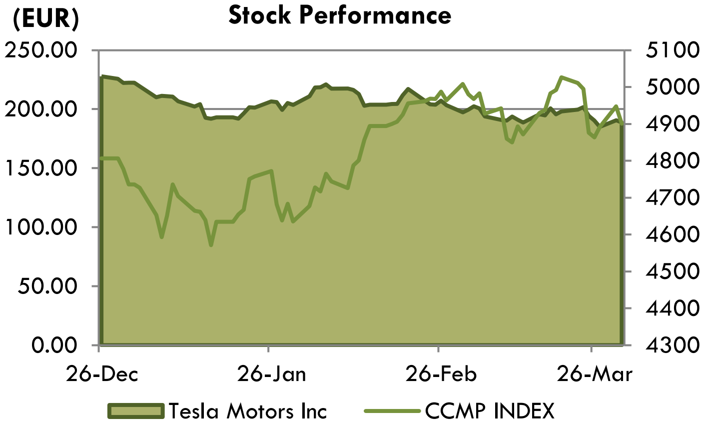
3. Detailed Review – Tesla Motors

Company Overview

- Tesla Motors designs, develops, manufactures and sells electric vehicles and advanced electric vehicle powertrain components. Tesla owns its sales and service centers and Supercharger stations. In addition to Tesla vehicles, it designs, develops, manufactures, and sells advanced electric vehicle powertrain components to other automotive manufacturers.
- Tesla Motors is headquartered in Palo Alto, CA, United States and employs around 10,220 people. Most of Tesla's 2014 revenues were generated in the US (46% at $15 billion), followed by a variety of geographies across the world (26.18%) at $834 million. Additionally, Norwegian sales accounted for $412.2m in revenues.
- Although Tesla's total revenues increased from $2.5 billion in 2013 to $3.6 billion in 2014, earnings per share decreased from $0.780 (2013) to $0.140 (2014). Tesla's stock is down 13%, compared to a more or less flat S&P500.
- Only $477m in revenues were generated in China. China could have been an incredibly lucrative market for Tesla, however a series of errors have damaged the firm's prospects in the region. Nearly a year after entering the Chinese market, Tesla is pressing the reset button on the market that has huge potential but also some major obstacles. It appears that this reset has been planned for several months, however the company has just recently discarded the short-term and aggressive sales targets for the market, indicating a substantial change in strategy.

Corporate News

- Tesla shipped a record of over 10,000 cars in the first quarter of 2015. A favorite thesis is that Tesla has overestimated demand for electric vehicles and that slack demand was the true reason for production shortfalls in 2014. However the question of whether the company can deliver 55,000 cars this year is more an issue of production capacity, and not of a lack in demand.
- Tesla CEO Elon Musk announced that the firm is working on an 'auto steering' feature. With this technology, drivers would not have to control the steering wheel, acceleration or braking when the car is on a highway. During the same press conference, Musk also announced a future "range assurance" application and a trip planner.
- Tesla's latest earnings report is a good one, and it has led to strong market support for the company. Tesla is showing single mindedness about its business plan to build and develop the market for a fully Electric Vehicle that does not require an internal combustion engine.



Tesla Motors Inc (USD)	
Current Price (31/03/2015)	188.77
52-week high % change	-35.2%
Median Target Price	257.83
Market Capitalisation (mn)	25,542
Return on Common Equity	-37.2%
Dividend Yield	n/a
Beta (vs. CCMP INDEX)	1.3x
Total Debt/Equity	272.9%

Source: Bloomberg (as of 30.03.2015)

Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
Tesla Motors Inc	US	USD	25,980	26,562	n/a	630.7x	8.9x	28.5x
General Motors Co	US	USD	57,852	42,627	8.9x	6.5x	0.4x	1.6x
Ford Motor Co	US	USD	63,757	58,749	15.1x	5.1x	0.4x	2.5x
AUDI AG	DE	EUR	32,252	20,885	7.4x	2.2x	0.3x	1.7x
Toyota Industries Corp	JP	JPY	2,352,569	3,006,358	19.4x	10.8x	1.2x	1.0x
Honda Motor Co Ltd	JP	JPY	7,383,382	13,199,829	12.3x	7.6x	1.0x	1.1x
75th Percentile					15.1x	10.0x	1.2x	2.3x
Median					**12.3x**	**7.0x**	**0.7x**	**1.7x**
25th Percentile					8.9x	5.5x	0.4x	1.2x

- The analysis of the EV/EBITDA and EV/Sales multiples positions Tesla Motors far above the 75th percentile; based on our model, Tesla trades at a 630.7x EV/EBITDA multiple, which is an extremely high multiple when compared to the median of the chosen pears. The latter suggests that the firm is highly overvalued.
- Overall, Audi AG shows EV/EBITDA and EV/Sales multiples of 2.2x and 0.3x, respectively. These multiples are slightly below the 25th percentile; Audi therefore is the competitor showing the lowest EV multiples.

Analyst' s Corner

- NIC's estimation method results in a $73.58 target price, a value averaged out from the $131.84 price computed based on Sales and $15.33 price based on EBITDA.
- Our methodology is based on a market valuation, that is, our target prices are computed related to benchmark comparables. In Tesla's case, it was observed that the selected multiples were substantially higher than the peers'. This led to the end result of our target price being very low comparative to market perspectives.
- The market seems to view Tesla as a highly differentiated company, forecasting strong growth possibilities. In spite of this, last quarter's EBITDA was negative.
- One possible reason for the bad operational performance could be higher operating expenses supporting an investment commitment, to be capitalized in further periods. This view seems to be supported by the markets' estimates for EV/EBITDA and EV/Sales: although the multiples are expected to be lower, the target price is higher than the current price. To achieve that valuation, the operational figures have to pose a sound improvement (as they are expected to do).

Target Price	
Current Price	203.10
Consensus Target Price	277.50
NIC's Target Price	73.58

EBITDA € M (quarter)	
Current	-6.86
Market Estimate	81.50
NIC's Estimate	3.00

EV/EBITDA	
Current	630.73x
Market Estimate	50.17x
NIC's Estimate	52.32x

Sales € M (quarter)	
Current	956.66
Market Estimate	1286.38
NIC's Estimate	800.00

EV/Sales	
Current	8.92x
Market Estimate	4.57x
NIC's Estimate	5.09x

Source: Bloomberg (as of 30.03.2015)

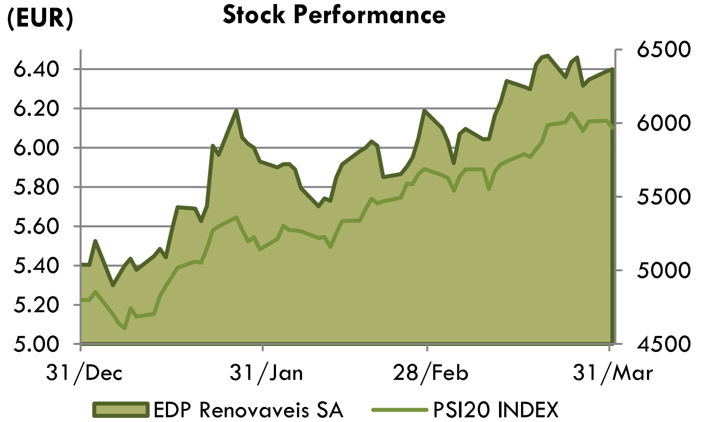
3. Detailed Review – EDP Renováveis

Company Overview

- EDP Renováveis (EDPR) is one of the world's leading renewable energy companies designing, developing, managing and operating power plants that generate electricity using renewable energy sources. EDPR was established in 2007 to hold and operate the growing renewable energy assets of parent company Energias de Portugal (EDP Group), Portugal's largest utility company.
- EDPR's business currently includes wind farms and, to a limited extent, mini-hydro energy activities. It is present in 11 countries and is considered the world's third largest renewables company. It currently owns and operates more than 180 wind farms in Spain, Portugal, France, Belgium, Poland, Romania, the United States and Brazil.
- Figures provided by EDP indicate that the group's total investment in minority interests in renewable energy projects is around 1.3 billion Euros.
- In fiscal 2014, EDPR displayed total revenues of about 1,277 million Euros and generated a net income of 126 million Euros. The firm has total assets of 14,316 million Euros and a market capitalization of 4,714 million Euros.

Corporate News

- China Three Gorges (CTG), China's largest clean energy group, announced to invest about 2 billion Euros in renewable energy projects of EDP Renováveis in Portugal and Brazil.
- After acquiring 21.35% of the Portuguese State's stake in EDP – Energias de Portugal, S.A. in December 2011, the planned investments will lead CWEI from Hong Kong, which is a subsidiary of CTG, to hold 49% of EDP Renováveis.
- Through this strategic partnership in renewable generation projects, EDP and CTG aim to become worldwide leaders in renewable energy generation. Hence, EDP plans on leading in Europe, the US, Canada and Brazil and other South American markets and CTG will establish itself as a leader on the Asian market through its technological and industrial advantage.
- Moreover, the partnership with CTG includes a firm funding commitment by a Chinese financial institution to EDP which entitles the Portuguese firm to a loan of another 2 billion Euros for a maturity of up to 20 years. This strengthens EDP's credit profile through the increase of EDP's financial liquidity position with the extension by two years of the coverage of EDP's financing needs till mid-2015 and targeting a Net Debt/EBITDA ratio below 3.0x this year.
- EDP presented results this month and announced a profit of 1.04 billion Euros, the seventh consecutive year with profits in excess of 1 billion Euros.
- Major ongoing investments include four dams to be completed in 2015 and one in 2016. The major focus for the group's growth strategy remain on wind power in the US and on hydroelectric production in Brazil.



EDP Renovaveis SA (EUR)	
Current Price (31/03/2015)	6.40
52-week high % change	-1.8%
Median Target Price	6.24
Market Capitalisation (mn)	5,635
Return on Common Equity	2.2%
Dividend Yield	0.6%
Beta (vs. PSI20 INDEX)	0.7x
Total Debt/Equity	61.6%

Source: Bloomberg (as of 07.04.2015)

Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
EDP Renovaveis SA	ES	EUR	5,635	9,722	46.1x	9.5x	6.9x	1.0x
Enel SpA	IT	EUR	40,641	104,224	80.0x	4.6x	1.3x	1.3x
E.ON SE	DE	EUR	28,204	44,996	n/a	5.5x	0.4x	1.1x
Exelon Corp	US	USD	28,779	50,427	14.9x	8.1x	2.0x	1.3x
Electricite de France SA	FR	EUR	42,641	84,065	11.5x	4.6x	1.2x	1.2x
SSE PLC	GB	GBp	15,283	21,379	74.2x	9.7x	0.7x	3.1x
75th Percentile					74.2x	9.2x	1.8x	1.3x
Median					**46.1x**	**6.8x**	**1.2x**	**1.2x**
25th Percentile					14.9x	4.8x	0.8x	1.1x

- We chose a set of five internationally traded stocks that are active in the energy and renewable energy sector for the purpose of this analysis. The comparison of the peer firms' P/E ratios suggests that EDPR is fairly valued even though P/E ratios diverge massively.
- The EV/EBITDA and EV/Sales multiples on the other hand indicate that EDPR is overvalued. Compared to its sales revenues and especially its operating profit, EDPR's equity value lies (way) above those of its international competitors.
- Comparing EDPR's stock price to its book value though, one can argue that the stock is under-priced. It is on last place compared to its peers and hence lies within the 25th percentile.
- All in all, a slight overvaluation of EDPR stock can be concluded, meaning that the upside for investors is likely to be limited.

Analysts Corner

- Sales from electricity generation are unlikely to increase as the company builds more wind capacity (EDP enters 2015 with 9 gigawatts of generating capacity and plans to add 600 megawatts during the year) in the coming years. Sales figures are expected to remain stable for EDPR as its main field of operation, owing and operating wind farms, tends to be far less volatile than almost any other area of the renewable energy sector.
- The market seems to take the bright outlook into account for pricing EDPR's stock with a target price (€6.46) far above NIC's estimate (€3.17). This also explains why the firm's current P/E-ratio (38.63) exceeds NIC's forecast (29.86) by almost 30.0%.
- Governmental support for wind energy in the form of subsidies and tax credits will offer firms like EDPR opportunities to increase its generation capacity. The current economic obstacles faced especially in Europe are likely to damp growth for the next couple of years. This also explains EDPR's strong move of expansion on markets like Poland and Brazil as well as solar installations, of which it is now installing its first ever capacity. The strategic expansions seem to have been profitable as current EPS (€0.08) are larger than the market (€0.03) and NIC (€0.04) estimated. Also the quarterly EBITDA (€261.4m) lies above what NIC forecasted (€200.0m).

Target Price (€)	
Current Price	6.46
Consensus Target Price	6.45
NIC's Target Price	3.17

EBITDA € M (quarter)	
Current	261.40
Market Estimate	n/a
NIC's Estimate	200.00

EV/EBITDA	
Current	9.53
Market Estimate	n/a
NIC's Estimate	7.35

EPS € (quarter)	
Current	0.08
Market Estimate	0.03
NIC's Estimate	0.04

P/E	
Current	38.63
Market Estimate	45.08
NIC's Estimate	29.86

Source: Bloomberg (as of 07.04.2015)

4. Mergers and Acquisitions

Announced Date	Target Company	Target Country	Buyer Company	Buyer Country	TV (m)	TV/EBITDA	Announced Premium
08/04/15	BG Group PLC	UK	Royal Dutch Shell PLC	NL	£ 57,540.71	8.8x	54.07%
25/03/15	Kraft Foods Group Inc	US	HJ Heinz Co	US	$ 55,422.87	24.1x	-
24/03/15	Telefonica UK Ltd	UK	Hutchison Whampoa Ltd	HK	£ 10,175.00	n/a	n/a
04/03/15	Pharmacyclics Inc	US	AbbVie Inc	US	$ 19,821.99	156.3x	44.15%
02/03/15	Freescale Semiconductor Ltd	US	NXP Semiconductors NV	US	$ 15,768.70	15.8x	2.15%

- The past month had $744bn worth of deals, the biggest monthly volume since May 2007, 78% were company takeovers and despite the handful of very big deals, like the ones in the table above, 72% of the deals were smaller than $500m in size. Nevertheless March emphasized the strong recover in mergers and acquisitions for the beginning of 2015.
- Just when everyone thought the deal of the year had just happened, when the $55bn merger between Kraft and Heinz was announced, on the 8th of April Royal Dutch Shell agreed to buy UK based BG Group for an astounding $70bn, making it the 14th largest M&A deal ever.
- If approved by shareholders and regulators, this deal would make Shell the world's largest producer of liquefied natural gas. Apart from gas the deal will also strengthen Shell's position in deep water, increasing its proved oil and gas reserves by 25%. The acquisition of the BG Group comes during a period of low crude prices and in general a difficult time for oil companies, which saw their market capitalizations plunge since June last year, suggesting further deals and consolidation in the Energy sector.
- With a 54% premium paid by Royal Dutch Shell, the BG Group's shareholders appear to be the major beneficiaries of the deal. Now owning 19% of a new company able to provide them better long term prospects. Shell closed down 5.3% lower on the day of the announcement.
- Roughly two years ago, Brazilian private equity firm 3G Capital teamed up with Warren Buffet to buy Heinz for $28bn. Now it is time to make a profit. HJ Heinz is returning to the public markets via a reverse merger with Kraft Foods Group to create the world's fifth largest food company. In a reverse merger, investors of the private company acquire a majority of the public company, which is then merged with the purchasing entity. In this case, 3G and Warren Buffet will hold a 51% stake in the newly formed company. As an incentive Kraft's shareholders will also be offered a one-time cash dividend of $16.50 per share. Kraft was trading at $61.33 before the announcement, closing 32.5% up, at $82.80.
- Spain's Telefonica agreed to sell its UK business O2, bought in 2005 for £18bn, to Hutchison Whampoa for £10bn. The deal between the Spanish and the Hong Kong group is set to create the biggest mobile telecommunications provider in the United Kingdom, overtaking EE Limited. Hutchison Whampoa, owned by Hong Kong investment tycoon and Asia's richest man, Li Ka-Shin, expects to have the deal concluded by June to September next year. The sale does not include Telefonica's O2-branded operations in Germany, Czech Republic and Slovakia.
- Unlike the Irish deal in 2013, where Hutchison Whampoa chose to integrate the purchased O2's Irish unit into its Three Ireland business, the fate of the O2 brand in Britain is still uncertain. O2 UK is solid and has a good reputation for customer service, which might suggest that Li could keep it running, to serve premium subscribers, separated from Three, that would target value conscious customers.
- Chicago based AbbVie outbid Johnson & Johnson and a third rival, rumoured to be Novartis, with an offer of $261.25 per share in Pharmacyclics. The fierce bidding competition was mainly due to Imbruvica, a cancer drug that analysts have referred to have great potential, already approved in 40 countries and expected to generate $1bn in sales this year in US alone. This will allow AbbVie to reduce its reliance on its best selling rheumatoid arthritis drug Humira, since the arthritis treatment goes off-patent next year.
- Finally a brief mention to NXP Semiconductors attempt to aquire Freescale Semiconductor for $6.25 in cash and 0.3521 of an NXP share for each share of Freescale common stock, which is being investigated to probe whether Freescale's board ensured to maximise shareholder's value, since the offer price was less than 0.1% based on the company's February 27, 2015 closing price.

Source: Bloomberg (as of 08.04.2015)

The NIC Fund

Student-run Virtual Fund

March 2015

Nova Investment Club

www.novainvestmentclub.com

1. Macro Outlook

Europe

• Europe is currently living a period of optimism with rising consumer confidence and decreasing deflation in the Eurozone, mainly resulting from a weaker euro. Furthermore, unemployment statistics have improved both in the Eurozone and in the 28 members of the EU. Similarly, economic activity has been improving at its quickest rate since 2011 as well as Eurozone economic confidence is now at a four year high with purchasing managers index and expectations of future selling prices on a clear upward move. Improved credit conditions, with low interest rates, extended debt maturity and loan growth, have created a climate of cheap debt which has further resulted in a rising market for M&A transactions. Likewise, hybrid bonds have turned out to be a safe harbour for those hunting for returns. Overall, Europe has been outperforming and is looking more attractive than ever, namely to US investors, assuming the role of the most preferred equity region to invest in over the following year.

• However, it must not be forgotten that the improvement in growth and bull equity markets in the Eurozone possibly will result in a stronger euro in the future and the quantitative easing may well only have a short term impact on the economic activity of the region and prevent Governments from doing structural reforms. Another thing to take into consideration is that even though the euro has been falling, other European currencies such as those of Switzerland, Denmark and Sweden, are under upward pressure, which may hamper the performance of Europe as a whole.

US

• March will be known as the month of 2015 where two major central banks reached a turning point, where the ECB started its asset purchase program on March 9 and the Federal Reserve it is not 'patient' anymore in beginning to normalize the stance of its monetary policy – carefully stated by the Chairman of the Fed.

• In what concerns bonds yields, the increased demand for higher yielding assets constitutes also a downward pressure for US bonds rates. Going forward, we expect this to be more than compensated by the upward pressure from the upcoming first rate hike by the Fed.

• Higher volatility is expected as US monetary policy is now again very data-dependent. As argument we can see that the last labor market report brought unwelcome news, where job gains slowed to 126k, the most disappointing figure since the Summer of 2012, which made long-term interest rates jump by 15 basis points in only two hours. Also, US stock indices mostly lost value over the past month with the stronger USD and the outlook for the start of the Fed hiking cycle to be blamed.

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Emerging Markets

Regarding emerging markets, there has been a growing concern over these countries' performance. First of all, the strong dollar has resulted in the depreciation of most EM currencies. Second of all, on top of the oil price among record lows, also other commodity prices are now dramatically small. As such, these countries have been suffering from severe capital outflows to more developed nations that have been outperforming. Due to the latter, many of these countries face serious problems as they borrowed a great deal since the financial crisis and now the debt burden is increased given their currencies' depreciations. This only adds up to the fears of lower economic growth in the future, as warned by the IMF which predicts potential output to shrink by 5.2% in the following 5 years. Another point to take into consideration is the move to monetary easing, namely in Asia, with several countries having cut interest rates as of the beginning of the year.

Asia

In Asia, Japan reported February housing starts -3.1%, industrial output -3.4% and vehicle production -5.3% YoY basis. Unemployment rate decreased to 3.50% in February of 2015 from 3.60% in January of 2015. The People's Bank of China remarked that the decline in GDP growth has been sharper than expected, but that they had the tools needed to respond, should that be necessary. Despite the QE and unlike the Euro Area, Japanese bond yields followed the ones in the US and climbed in prices. Japan's economy benefits strongly from lower energy prices in the form of cheaper energy imports and rising demand from abroad. In China the economy slowed at its sharpest rate in the first two months of the year since the global financial crisis, heightening fears that this deceleration will undermine global growth. In India there is a growing gaining momentum where the economic growth has been gradually picking up where the March report showed that GDP grew at healthy rate of 5.5% YoY, with a few other indicators showing that the economy is not out of danger yet, where the RBI is under pressure, both from the industry and policy makers, to cut rates. In Indonesia, the cut in subsidies on gasoline and diesel was a bold step by the new president and signals his intent to remove structural flaws in the economy.

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2. Fixed Income, FX and Commodities

Oil's reaction

• The overall portfolio gained 1,89% last month. The greatest contribution was given by the short position on EUR/USD, confirming itself as the ever-green trade of the year. Regarding the commodities, it is time to give up with the bullish feeling about the Gold and bet on the apparently reborn Oil.
• I keep betting on the European QE, confident that not all of its effects have already been exploited. Even though the European currency shows signs of recovery, I still maintain the short positions on EUR/USD and EUR/INR.
• The oil's fall should be overdone, and we are likely to see prices rise soon. Saudi Arabia has just announced that on May it will raise the prices of the crude sold in Asia. I therefore open a long position on the oil.
• Due to the dollar's strength, the FED is holding over the interest rates rise. This is likely to slide to the end of the year. Meanwhile, I am confident that investors will buy sovereign bonds.

Analyst: Andrea Ricciardi
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Trade Summary:
Long 20% US Treasury 10y
Short 20% EUR/INR
Long 20% Oil
Short 40% EUR/USD

Asset Class: Currencies, Commodities, Bonds
Region: Europe, US, Asia

On the Monetary Policies road

• The last month performance was slightly positive. Each trade recorded a monthly return just above zero and the overall portfolio reached a plus 1%. The ten-year bonds from the European periphery slowed down the past month rally: they both grew of .8% this month. The portfolio behaved really conservative: the monthly standard deviation and return were respectively 1.2% and .9%. Assuming a zero interest risk free interest rate, which sounds really realistic given the current money market conditions (EURIBOR negative on 1 month and almost 0 from 3 months on), the Sharpe Ratio is .75.
• What I decided to add is long-short position to my portfolio to do not rebalance my previous trades. Given the different monetary policies currently in action, I decided to short on the ten-year US Treasury Bond and compensating this position by a long in the Spanish 10Y Government Bond. The yields of both bonds are diverging: while the former is increasing the latter is decreasing and I try to exploit this two paths by a long-short position.
• On the ECB contrail I decided to keep the bond from the periphery even though this month their prices did not grow up as in the previous. The performances from the Dominican Republic and China 10Y Treasury Bonds were lower than my expectations due the wrong timing I added to my portfolio, but still they were positive and I am still bullish on these obligations.

Analyst: Edoardo Colella
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Trade Summary:
Long 20% DRGB 10Y
Long 15% CGB 10Y
Long 35% BTPS 10y
Long 30% PGB 10Y
Short 30% TBOND 10Y
Long 30% SPGB 10Y

Asset Class: Bonds
Region: Europe, Asia, Central America

Moving Into New Markets

• The previous portfolio has gained 9.78% since the beginning of the trades and has gained 1.54% this last month. The main drivers of the positive performance in the past month comes from the gain the USD against the EUR which had at its peak from February to March gone up by 6.7% has now cooled but still remains positive at around 2.80%. The Algebris Credit Fund is still performing well and with the implementation of QE in Europe coming into effect it should only bolster its gains looking forward. UK services PMI hit a 7 month high and the latest numbers suggest that the economy grew 0.7% in the 1Q and thus I will maintain an open position in the Long GBPEUR trade.

• In regard to the USDAUD trade, I will pare the position slightly as it has gained considerably over its investment period. With the proceeds from paring this position I shall diversify into LATAM by going short on the Colombian Peso. The reason for shorting the COP will continue to fall because higher price pressure will lead to higher borrowing costs that will have a negative impact on the Colombian economy.

Analyst: Tiago de Fontes Pereira de Mello
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Trade Summary:
Short 33% EUR/USD
Long 10% GBP/EUR
Long 23% USD/AUD
Long 24% AFCIEUR ID Equity
Short 10% COP/USD

Asset Class: FX
Region: Europe; US, Australia, LATAM

3. Equities

Focus on Europe

• During March, the portfolio of last trading ideas performed really well when we look to returns comparing it to the American main Indexes such as the S&P500. It yielded more than 3% while the S&P500 had a negative return of around -1%.

• During the next weeks, I believe Europe will continue to provide the best returns among developed markets. The past weeks stronger dollar is already impacting American economy and the opposite effect should positively impact European companies exposed to currencies such as exporters.

• Therefore, I will do just small changes to my portfolio increasing form 80% to 100% my exposure to Europe. To do that I will close the Japanese and Indian positions, allocating those 20% in the ETF's tracking Portugal and Spain equity markets.

Analyst: João Cunha
joao.cunha@novainvestmentclub.com

Trade Summary:
Long 40% MSE:FP
Long 20% EUFN:US
Long 20% 4GXV:GR
Long 20% LYXIB:SM

Asset Class: Equities
Region: Europe

Joining Asian Monetary Easing Club

Analyst: Rita Brites
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Trade Summary:
Long 5% HD US
Long 6% BABA US
Long 8% INDY
Long 8% EIDO
Long 8% EWS
Long 15% FXI
Long 15% APPL US
Long 35% VOW GR

Asset Class: Equities

• Several Central Banks in much of Asia have been recently moving towards quantitative easing in an effort to pick up economic activity and increase rather low inflation. Since the beginning of the year, countries as China, India, Indonesia and Singapore have been steadily cutting interest rates. Assuming that policy rates will have a rather noticeable impact on lending rates and consequently boost expected consumption and investment, this Asian QE may push upwards the stock markets in these countries thus explaining this month's bet on the iShares S&P India Nifty 50 Index Fund (INDY), iShares MSCI Indons Invstbl Mrkt Indx Fd (EIDO), iShares MSCI Singapore Index Fund (EWS) and the iShares China Large-Cap ETF (FXI).

• Given that the iShares Cohen & Steers Real Estate Investment Trusts ETF (ICF) is already roughly at its all time high, I believe it is time to close that position.

• Regarding the remaining holdings, there was a slight increase in the exposure to Alibaba stock as it is my opinion that the stock is currently undervalued and it is expected that it will grow in the future. The same happens to both Home Depot (HD) and Apple (APPL), in which however the investment was slightly readjusted downwards to give room to the new assets. As to the stake in Volkswagen (VOW), I still consider it has further growth potential and therefore it will be kept.

Re-Balancing on Patience

Analyst: Miguel Leal da Costa
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Trade Summary:
Long 20% KORS US
Long 20% IWM ETF
Long 30% EUFN ETF
Long 30% VOW GR

Asset Class: Equities
Region: U.S and Europe

• In Last month the big winner on my portfolio was Volkswagen which yielded close to 8%, while the positive returns from both ETF's were offset by the negative performance of Michael Kors.

• I will keep my position in Michael Kors because I still 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 - 29%. With such stable and growing Free Cash Flow levels ($348m), I still believe a buyback program would be appropriate which would boost stock gains and increase its stability. Latest news reported that strong licensing arrangements are helping the company to rapidly expand in different geographical markets and is now positioned to boost online revenues with support of social media and e-commerce website has I have mentioned just before annual results announcement.

• Last month I wrote that Eurozone equities were likely to outperform US equities on a short-term view and last week Euro Stoxx 600 beat records while S&P500 is yielding less than 1% YTM. Because I believe there are no reasons to have different thoughts I will keep my position on iShares MSCI Europe Financials which is an ETF that seeks to track an index composed of European equities in the financials sector where 55% of the assets are banks, and on iShares Russel 2000 ETF where I believe the mid and small caps exposure to internal US economy might outperform S&P500 which is composed by 40% of exporting companies.

• Although several experts are now raising concerns on the stronger dollar, a weaker euro and cheaper oil keep boosting exports on almost every DAX's exporters stocks, and for this reason I will reduce my position on Michael Kors until new triggers arise and increase my position on Volkswagen AG.

Upcoming Events

From	To	Event	Location
01/04/2015	-	2015 OECD Global Forum on Development	Paris, France
12/04/2015	13/04/2015	2015 Global Parliamentary Conference	Washington D.C., United States
16/04/2015	17/04/2015	CREFC Europe Spring Conference	London, United Kingdom
23/04/2015	-	Closed-End Funds & Global ETFs Forum	New York, United States
23/04/2015	24/04/2015	2015 IIR European Securitisation Conference	Amsterdam, The Netherlands
26/04/2015	29/04/2015	68th CFA Institute Annual Conference	Frankfurt, Germany
29/04/2015	30/04/2015	Euromoney German Conference	Berlin, Germany

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