Newsletter

April 2015

Contents

nic Nova Investment Club

www.novainvestmentclub.com

Index

Investment Banking Report

The NIC Fund

Investment Banking Report
April

April 2015

www.novainvestmentclub.com

Companies
- Daimler
- Merck & Co.
- Deutsche Bank
- Salesforce
- Starbucks
- Nokia
- General Motors
- LVMH
- IBM

This month's detailed company reviews:
- Amazon
- Deutsche Bank

Table of Contents

1. Macro Overview

Macroeconomic indicators have generally provided evidence in favour of growth taking momentum within advanced economies. In Europe, Japan and the United States, a substantial part of this growth seems to be attributed to lower crude oil prices, in comparison to the homologue period. Other than oil prices, large exchange rate movements, which resulted from differences in monetary policy among these economies, also contributed toward the aforementioned evidence; weaker currencies – namely the euro and the yen against the US dollar, which has seen a considerable appreciation –, positively impacted growth within the euro area and Japan, respectively. Thus far, the appreciation of the US dollar has not been problematic. Even so, if the US dollar appreciates further in the near future, this might result in financial stress on a global scale, due to funding and balance sheet pressures on US dollar debtors.

Regarding the performance of European Institutions, it is important to note that the European Central Bank has been effective in putting its quantitative easing programme in action, which has been preventing real interest rates from rising and somewhat stimulating the European economy in the process. However, negotiation difficulties and political uncertainty associated with Greece, as well as the prospect of it leaving the Eurozone, have hindered this stimulus. An important event on this subject, following a disastrous meeting with Eurozone finance ministers in Riga, has been the reshuffling of the Greek team who had been handling the negotiations with European and IMF lenders. This culminated in Greek Finance Minister Yanis Varoufakis being put on the sidelines of future negotiations.

When it comes to emerging market economies, Brazil has taken the global spotlight this past month. In a world characterised by some countries' near-zero interest rates, Brazil has been "swimming" vigorously against the tide and increased its main interest rate to 13.25%. This increase came in the context of what is preparing to be a severe financial recession in the country, with unemployment on the rise, inflation over 8% and economic growth swiftly shrinking. Furthermore, the Petrobras scandal, believed to be the largest to ever occur in the country, has left the private sector reeling, while a harsh drought is putting increased strains in several cities across Brazil.

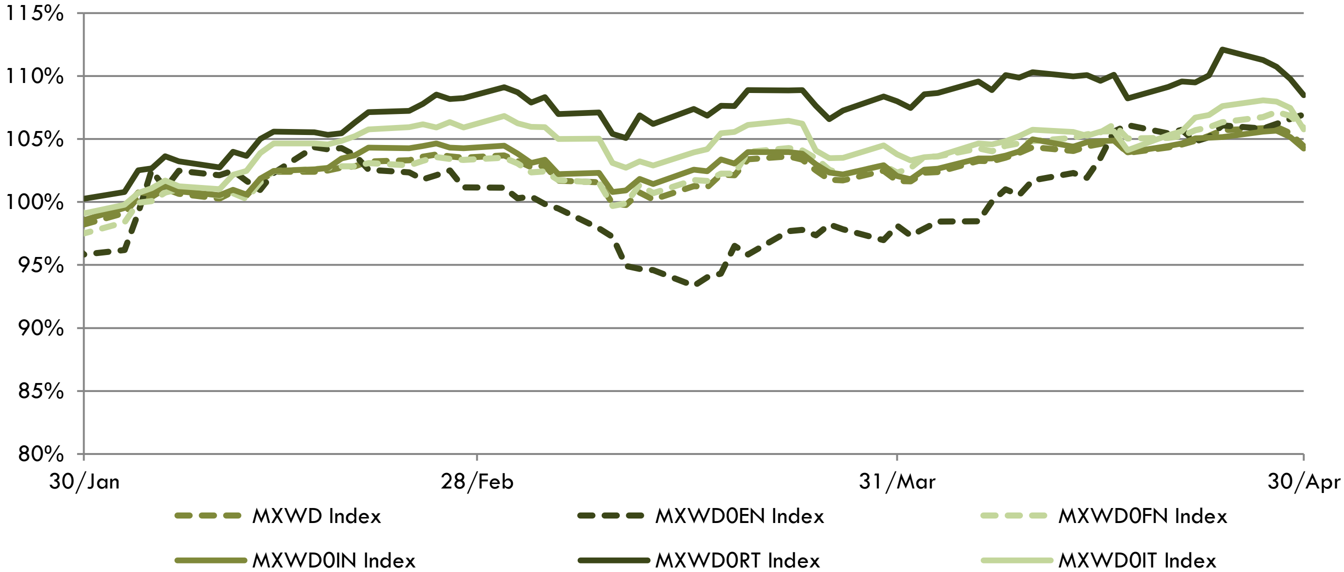
Meanwhile, China has continued to see its economy gradually slow down and its currency appreciate. This seems to be in line with a shift to a more sustainable growth pattern, meaning China will now have to settle for good growth levels and a lesser dependence on high investment levels, instead of the hyper growth it has had for the past 30-plus years.

Countries' Economic Data

Country	April Inflation (%)		Exchange Rate		Unemployment Rate (%)		10 Year Yield	
	MoM	YoY	USD	Monthly Change (%)			Current (%)	Montlhy Change (bp)
United States	0.24	-0.1	1	-	5.57	Q4	2.032	19
Eurozone	0.2	0	1.1224	2.32	11.30	Q4	0.366	17
Portugal	1.9	0.31	1.1224	2.32	13.50	Q3	2.106	40
Japan	0.4	2.3	0.008377	-0.33	3.50	Q4	0.342	-3
Greece	2.359	-2.142	1.1224	2.32	26.00	Q3	10.465	n/a
Russia	1.2	16.9	0.01937	9.50	5.73	Q4	n/a	n/a
China	-0.5	1.4	0.16127	-0.87	4.05	Q3	n/a	n/a
Brazil	1.32	8.13	0.3316	3.53	5.80	Q4	12.795	n/a

- The US CPI continues to hit negative territory on an annual basis in April – and so does the PPI. This does not positively contribute to the US economy. Commodity prices have also continued to show weakness. Several factors have been blamed for the drop in the CPI, PPI and other economic data, among which the heavy snowfall in the North East of the US this past winter, the significant drop in oil prices and the rise of the US Dollar.
- The EURO/USD exchange rate stabilized this month at a low level. The US currency is on top of the currency market. Since the middle of 2014, the US$ has not only appreciated nearly 30% against the Euro, it showed double-digit gains against the currencies of nearly all industrialized countries and many emerging markets. As illustrated in the table above, in the emerging markets the Russian Ruble stood out with a sharp appreciation (+9.37%)

Sectors' Overview

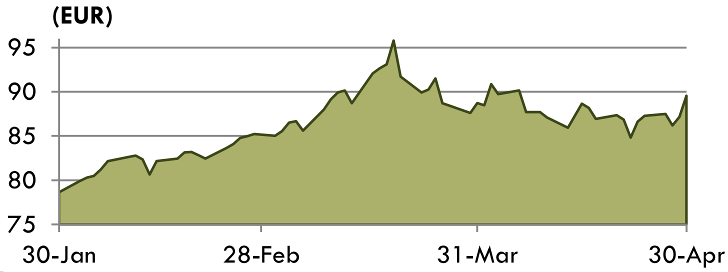


- Overall, sector indices showed a slightly upward sloping trend during the month of April. However, as the graph above illustrates, the Retail index (MXWD0RT), the Information Technology Index (MXWD0IT) and the MSCI Industrials Index dropped at the end of month. The Energy index (MXWD0EN) showed a steady upward sloping trend, with a minor drop towards the twentieth of April. The index, which is highly correlated to oil prices, has been showing signs of recovery for the past two months, which might be due to the fact that investors have stepped up bets on the recovery of oil prices.

2. Followed Companies

Daimler AG
(Ticker: DAI GY Equity)
Industry: Industrials

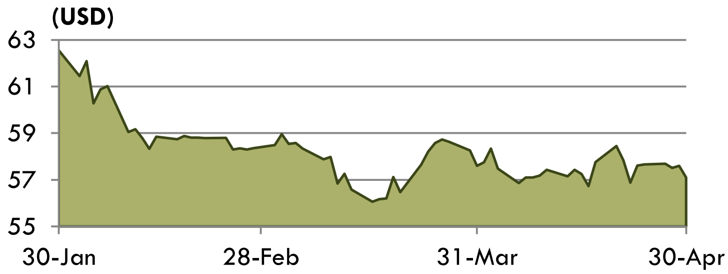
- Daimler's Q1 net profit almost doubled compared YoY, leaping 89.0% to €2.05bn. Also the firm's operating profit surged 41.0% to €2.9bn, laying above the consensus forecast of €2.65bn compiled by Reuters . The profit margin at Mercedes Benz increased to 9.2% from 7.0% in the same quarter a year ago.
- These strong figures were mainly caused by a jump in car sales of 18.0%, especially fueled by increasing demand for the new Mercedes-Benz C-Class as well as an increase in North American truck sales of 18.0%. The higher profit margin at Mercedes Benz was due to improved vehicle pricing and efficiency measures.
- Daimler also expects a €1bn positive earnings contribution from currency swings in 2015.



Price (EUR):	86.33
Target Price (EUR):	99.50
Up/downside:	15.3%
Performance 3M:	7.3%
P/E Ratio:	11.6x
ROC/WACC:	0.7x

Merck & Co., Inc.
(Ticker: MRK US Equity)
Industry: Pharmaceuticals

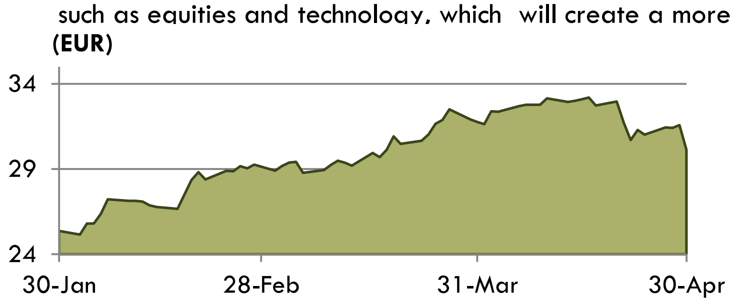
- Merck's full-year EPS guidance increased from a \$3.32-\$3.47 to a \$3.35-\$3.48-range.
- This is especially impressive as an appreciating US-\$ increases translation risk for US firms generating large revenues outside the domestic market, as is the case for Merck.
- A driver for the positive earnings development is the top-seller drug Januvia, a type 2 diabetes drug that pulled in revenues of \$1.4bn in Q1. The firm's general 2015 revenue guidance of \$38.3bn-\$39.8bn was left unchanged even though foreign exchange movements are expected to have a \$200m impact. The reason is the expectation for a better operational performance to cancel out a stronger US-\$.
- Investors sent Merck's shares up by 5.0% at announcement of the higher EPS-guidance.



Price (USD):	59.56
Target Price (USD):	65.00
Up/downside:	9.1%
Performance 3M:	-1.2%
P/E Ratio:	31.0x
ROC/WACC:	0.6x

Deutsche Bank AG
(Ticker: DBK GY Equity)
Industry: FIM

- Deutsche Bank's strategic five year plan, presented by the CEOs Jain and Fitschen in April intends to secure the bank's position as Europe's only global investment bank and make it become of the continent's best capitalized lenders by cutting costs.
- The plan includes spinning off its retail business by selling the daughter Postbank plus a €130-€150bn divestment in investment banking assets. Latter involves little execution of risk as it includes areas such as long-dated derivatives and prime brokerage, which rivals have already managed to successfully cut out.
- Simultaneously, €50-€70bn will be invested in more promising areas of investment banking such as equities and technology, which will create a more balanced portfolio.



Price (EUR):	28.73
Target Price (EUR):	31.36
Up/downside:	9.2%
Performance 3M:	11.3%
P/E Ratio:	33.2x
ROC/WACC:	0.5x

Source: Bloomberg (as of 30.04.2015)

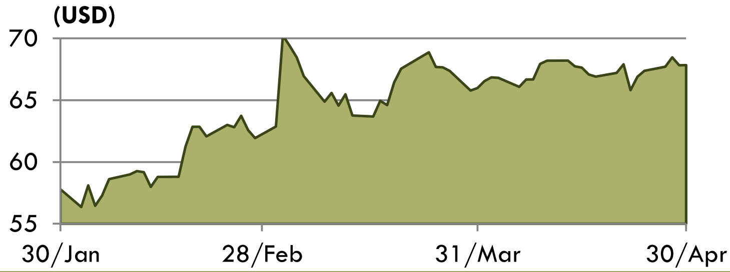
2. Followed Companies

Salesforce.com, Inc.

(Ticker: CRM US Equity)

Industry: Technology

- The global cloud computing company had been trading at around $67 during March.
- Because of its market share of 16% in Customer Relationship Management as of 2013, opposed to 13% of SAP, 10% of Oracle and 7% of Microsoft, and because of the shift to cloud softwares, there have been rumors around giants such as SAP and Microsoft intending to acquire Salesforce.
- On April 28, its stock price increased 12% on takeover bets, with the firm now being valued at 80x EBITDA. Comparables, on the other hand, are trading at 15x EBITDA – this is set to be one of the most expensive tech deals of the size.



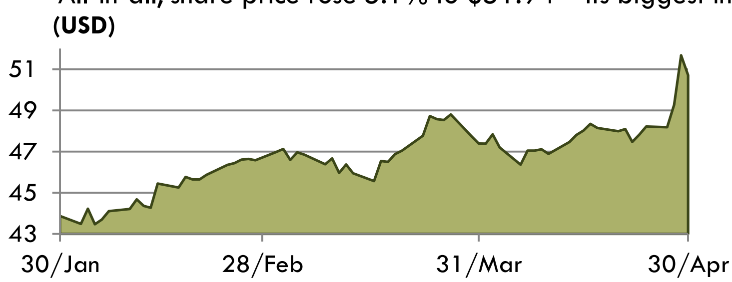
Price (EUR):	78.82
Target Price (EUR):	80.00
Up/downside:	9.9%
Performance 3M:	29.0%
P/E Ratio:	n/a
ROC/WACC:	-0.3x

Starbucks

(Ticker: SBUX US Equity)

Industry: Consumer

- Starbucks, the world's biggest coffee-shop chain, has recently expanded its menu and fostering the success of its mobile app. The CEO has focused on expanding digital services, namely mobile ordering and delivery directly to the offices (experiment in Seattle and Empire State Building).
- Analysts estimated revenues in the quarter to be around $4.53bn. Starbucks met expectations with revenue increasing 18% to $4.56bn. On the earnings announcement, the firm also gave positive insights about the rest of the year: "Consumers are purchasing more expensive beverages, and they're purchasing more food".
- All-in-all, share price rose 5.1% to $51.94 – its biggest intra-day increase since January.



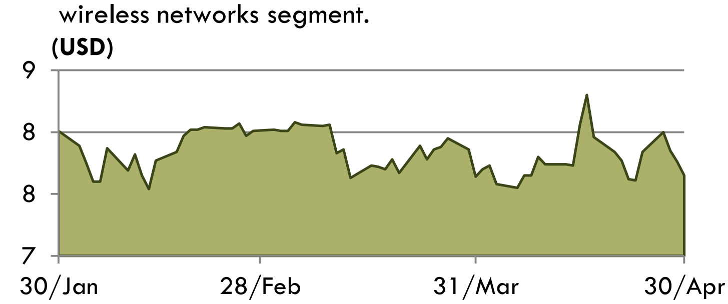
Price (USD):	49.92
Target Price (USD):	56.00
Up/downside:	13.3%
Performance 3M:	13.7%
P/E Ratio:	32.5x
ROC/WACC:	3.5x

Nokia

(Ticker: NOK GY Equity)

Industry: Technology

- Nokia is facing increasing competition, namely from rivals such as Huawei Technologies Co and Ericsson AB. As phone-equipment makers compete for contracts from carriers in the network segment, Nokia's margins have been hurt, with profitability missing estimates.
- Even though revenues rose 20% to $3.2bn, operating margins shrunk from 9.3% to 3.2%. The market reacted negatively to these events, with the stock price decreasing from $7.49 to $6.58 on April 29.
- This increased pressure is forcing Nokia to explore alternatives, such as the acquisition of Alcatel-Lucent SA. The €15.6bn deal would allow Nokia to become more competitive in the wireless networks segment.



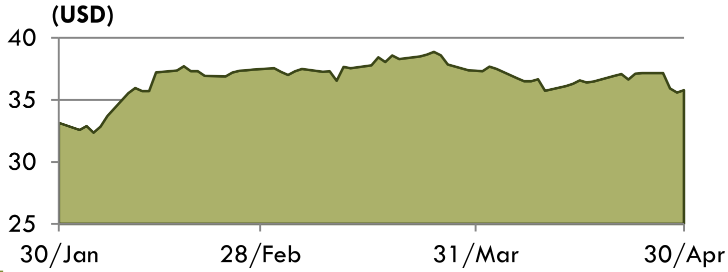
Price (USD):	6.58
Target Price (USD):	9.25
Up/downside:	40.6%
Performance 3M:	-13.4%
P/E Ratio:	n/a
ROC/WACC:	0.4x

Source: Bloomberg (as of 30.04.2015)

2. Followed Companies

General Motors
(Ticker: GM US Equity)
Industry: Industrials

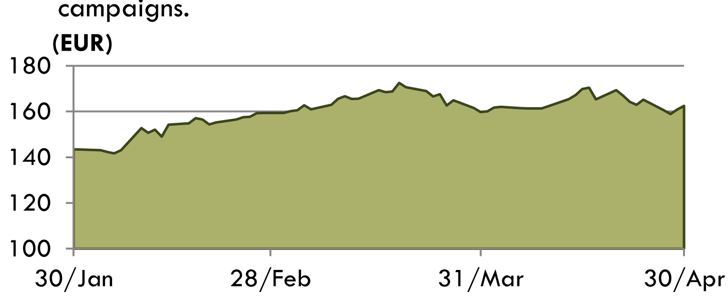
- While reaching a remarkable milestone in its 106-year long history by being the first automaker to build its 500 millionth car, GM faces investors' concern that the U.S. auto cycle has peaked.
- Despite being present in India for more than 18 years, GM aims to revive sagging sales and achieve a 5% market share in this market over the next decade, as it sees the Indian market overtaking the world's third biggest one – Japan.
- GM announced first-quarter adjusted earnings of $0.86 per share, below the average analyst consensus of $0.97 and saw its stock price decline from more than $37 to $35 in the subsequent week, as investors were expecting better results.



Price (USD):	↑	35.06
Target Price (USD):		44.00
Up/downside:		25.5%
Performance 3M:		8.4%
P/E Ratio:		8.5x
ROC/WACC:		-0.1x

LVMH
(Ticker: LVMH IM Equity)
Industry: Retail & Consumer Goods

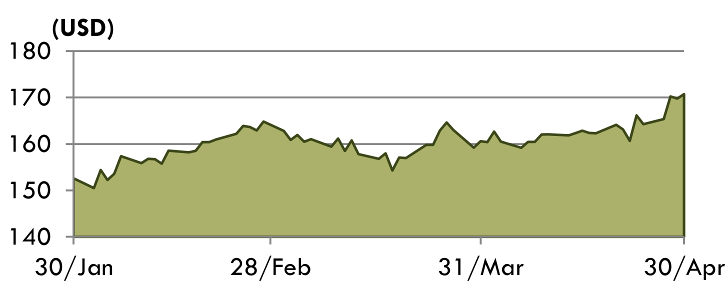
- Data show that Louis Vuitton has been experiencing brand fade as consumers in higher-tier cities increasingly shun its products and shift to Prada. This is partly because China's wealthier and more cosmopolitan consumers value exclusivity and therefore avoid purchasing brands that too many other people own.
- Moreover, China's 10tn economy slower growth is concerning not only policy makers in Beijing but also many industry leaders around the world. LVMH has been experiencing a weaker demand for brands such as Louis Vuitton and Christian Dior, predicting difficult times ahead, which was also enhanced by President Xi Jinping's austerity and anti-corruption campaigns.



Price (EUR):	↑	157.60
Target Price (EUR):		174.00
Up/downside:		10.4%
Performance 3M:		10.8%
P/E Ratio:		n/a
ROC/WACC:		1.2x

IBM Corp.
(Ticker: IBM US Equity)
Industry: TMT

- IBM's cognitive computer Watson is set to be used by 14 U.S. and Canadian cancer institutes to better choose therapies based on a tumor's genetic fingerprints. After the $1bn spin-off of Watson as a division, IBM is showing several more examples of how it will make a difference, by presenting apps that will allow you to do things from finding your ideal therapist to helping hotel staff better serve guests.
- Warren Buffet remains confident in IBM's future with Berkshire Hathaway increasing its stake on the company recently to 9% of IBM's stock. Buffet relies in the security feature of IBM's products to predict that the company will thrive in cloud computing and corporate services.



Price (USD):	↓	171.29
Target Price (USD):		161.50
Up/downside:		-5.7%
Performance 3M:		12.5%
P/E Ratio:		10.4x
ROC/WACC:		3.2x

Source: Bloomberg (as of 30.04.2015)

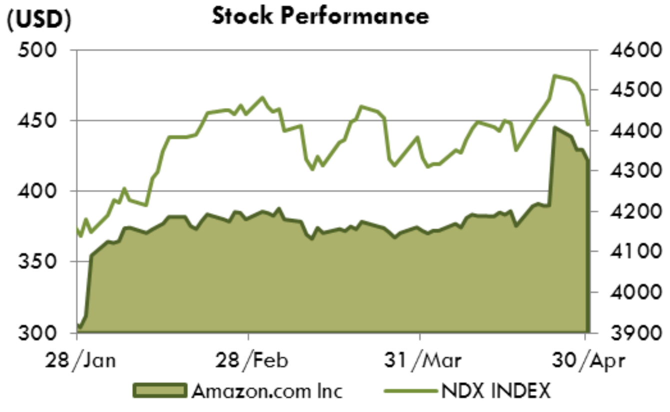
3. Detailed Review - Amazon.com, Inc.

Company Overview

- Amazon.com is an e-commerce company and the largest online retailer in America. Despite not being its major business, Amazon also produces several proprietary electronic devices such as the Kindle e-book reader and the Fire TV, Smartphone and Tablet. Amazon is still run by its founder Jeff Bezos.
- Although Amazon never disclosed the results of Amazon Web Services (AWS) until this last quarter, the investment in its cloud computing service business has been considerable since it was launched in 2006. Nevertheless Amazons' bet on cloud technology seems to be paying off. AWS is up and running, with approximately 1.4 million servers split across 28 geographical regions, growing at 50% per year. Netflix, Pinterest, the CIA, NASA and Adobe are some of the users of AWS for data storage and processing power, much like, roughly, a million other businesses and start-ups.
- By the end of January Amazon acquired a chip designing and manufacturing start up for a rumoured \$350m to \$375m. The 2011 Israeli start up, Annapurna Labs, is quite secretive about its products and activity and hasn't publicly disclosed any. The acquisition may prove to be fundamental to AWS's profitability, since Annapurna is said to develop midrange networking chips that transmit more data and use less power.
- But one of the main reasons why Amazon is up 34% YTD, with the last two earnings announcements coming as a pleasant surprise to investors, was Amazon's Prime service, in which the company has invested so heavily and dearly, namely in its Instant Video and shipping component, with the infamous drone delivery. The \$99/year service which combines free same day delivery of both physical products and digital media saw a 53% increase in paid memberships worldwide and almost three times the video streams on Prime Instant Video compared to last year, finally indicating the potential breakthrough of the Prime segment.

Corporate News

- April's 23 Q1 earnings beat analysts' expectations, specially the figures regarding Amazon Web Services business, which generated \$1.57bn. On top of that AWS also had a profit of \$265m for this quarter and is on track to surpass \$1bn in profits for 2015, making Amazon the company with the largest cloud computing business in the market. Sales grew 15% YoY and operating income also rose 78% in North America. Despite the net loss of \$57m for the first quarter, the outlook for the second quarter is positive, with sales projected to grow between 7% and 18%.
- Amazon launched on April 28th Amazon Business, in an attempt to place itself closer to Alibaba and dug into the \$7.3tn US business to business market. The new platform targets enterprise shopping and is essentially a corporate version of its Prime business, with features such as multi-user accounts, special business-only pricing and special deals for bulk purchasing.
- AWS is piloting 4.8MW/h worth of the new stackable batteries of Tesla Energy, to power its Northern California cloud data centre, following its November's commitment to run exclusively on renewable energy.
- Amazon plans to invest \$220m in a 76,180m2 fully automated distribution centre in Shakopee, Minnesota.



Amazon.com Inc (USD)	
Current Price (30/04/2015)	421.79
52-week high % change	-6.8%
Median Target Price	457.59
Market Capitalisation (mn)	196,417
Return on Common Equity	-3.8%
Dividend Yield	n/a
Beta (vs. NDX INDEX)	1.0x
Total Debt/Equity	149.8%

Source: Bloomberg (as of 30.04.2015)

Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
Amazon.com Inc	US	USD	196,417	192,268	n/a	31.1x	1.8x	18.1x
Microsoft Corp	US	USD	393,477	329,907	18.9x	8.1x	2.8x	4.4x
eBay Inc	US	USD	70,776	68,760	25.7x	14.0x	3.7x	3.6x
Netflix Inc	US	USD	33,737	33,179	144.9x	53.8x	4.3x	17.7x
Google Inc	US	USD	370,280	305,989	26.9x	14.3x	4.6x	3.5x
International Business Machine	US	USD	168,675	198,846	10.2x	8.6x	2.1x	13.9x
75th Percentile					26.9x	26.9x	4.1x	16.7x
Median					**25.7x**	**14.2x**	**3.3x**	**9.1x**
25th Percentile					18.9x	10.0x	2.3x	3.8x

- Among the firms in the table, Amazon has the highest EV/EBITDA after Netflix, but the lowest EV/Sales multiple overall, which reveals one of the main issues with the company: its very narrow margins. It has also the highest P/B ratio, almost double the average amongst its peers.
- One could argue, judging by the figures, that Amazon is overvalued compared to its closest peer eBay, however Amazon has a wider array of businesses, other than the e-commerce retail one, which are promising and perhaps disruptive. Let's just say that there are high hopes for what Amazon's future holds.
- Both IBM and Microsoft are also well into the cloud business. Microsoft's Azure is Amazon's closest competitor, with akin sales and similar growth. IBM's $7.7bn cloud business is actually bigger than Amazon's, however $3.9bn of those are sold hardware and software installed in IBM's data centres and not really 'le crème de la crème' software as a service.

Analysts' Corner

- NIC's estimation using Amazon's both Sales and EBITDA growth trend within its industry, suggests a price of $490.36, representing an upside of 15.7% vs a 8.6% consensus upside for the next year's spot price. Anyhow both are in line with the majority of analysts' recommendations, a strong buy for Amazon stock.
- Amazon generally displays a EBITDA peak in Q3 which decreases until Q2 of the following year, before boosting back up again. For this reason and due to Amazon's business cyclicality, we are more conservative on this measure with an estimate of $1.5bn. The market estimate for Q2 however, is higher than the EBITDA announced this last Q1. NIC's EV/EBITDA estimate is inline with the market's, suggesting a considerable decrease from current levels.
- Much like EBITDA, Amazon's Sales are also strongly cyclical having the best result of the fiscal year in the third quarter. The market's estimate for the next quarter predicts revenues to stay flat, which generally happens, at least judging by the last decade. Nonetheless and contrary to the estimate for EBITDA, we predict sales to increase roughly $4bn due to the AWS and Amazon Business segments. In our view, the predicted growth in revenues will not push EBITDA up just yet, since tight margins will probably keep on being an issue for the months to come. We also estimate EV/Sales to increase for the same reasons and converge to the industry's.

Target Price ($)	
Current Price	423.87
Consensus Target Price	462.50
NIC's Target Price	490.36

EBITDA $ M (quarter)	
Current	1,494
Market Estimate	1,757
NIC's Estimate	1,500

EV/EBITDA	
Current	30.81x
Market Estimate	22.14x
NIC's Estimate	22.78x

Sales $ M (quarter)	
Current	20,191
Market Estimate	19,989
NIC's Estimate	24,000

EV/Sales	
Current	1.83x
Market Estimate	1.86x
NIC's Estimate	3.03x

Source: Bloomberg (as of 30.04.2015)

3. Detailed Review – Deutsche Bank

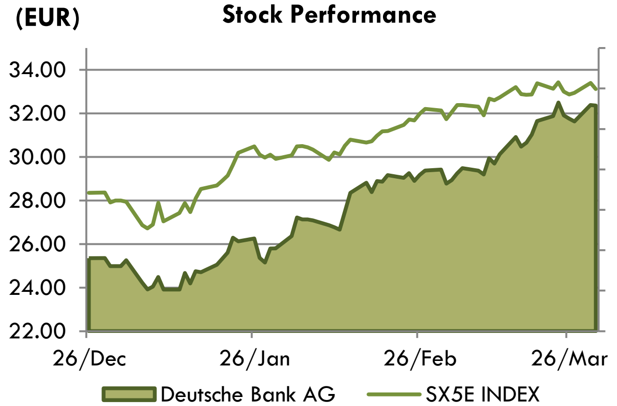
Company Overview

- Deutsche Bank AG is a German global banking and financial services company with headquarters in Frankfurt and a strong global footprint. The bank has over 100,000 employees in more than 70 countries, and has a large presence in Europe, the Americas, Asia-Pacific and the emerging markets.
- Currently the Investment banking division Corporate Banking & Securities (CB&S) accounts for 47% of its €10.4bn revenues, followed by the Retail division Private& Business Clients with 25%. Asset and Wealth Management and Global Transaction Baking (GTB) generate 14% and 11% respectively, measured in 1Q2015 figures.
- The Bank reported its first annual loss in five decades during the financial crisis in 2008 (€-3.9bn), it didn't require a bail out by the German government and has been recovering ever since. In 2010 the bank grew its private banking business trough the €1bn acquisition of Sal. Oppenheim and acquired Deutsche Postbank in a tender offer for about €6bn, to preserve its lead in the domestic retail business.
- In 2012 Anshu Jain (former head of GB&S) and Jürgen Fitschen (former head of the German business) replaced Josef Ackermann as Co-CEOs and launched the Strategy 2015+. The objective was to address current issues like a changing regulatory environment and the critical public perception of the financial industry. The strategy targeted a cultural change to better align risks and rewards and strengthening it's capital (CET1 target ratio: 10%*) and leverage ratios.

  *CET1: Common Equity Tier 1

Corporate News

- In April 2015 Deutsche Bank was ordered to pay a record $2.5bn fine to settle with U.S. and U.K. regulators, due to investigations of its role in rigging key interest rate benchmarks mainly the London Interbank Offered Rate (LIBOR). The bank reacted in creating a Benchmark and Index Control Group, which now oversees the Bank's IBOR submissions and reports to Risk Management. Furthermore submission will be increasingly based on observable transactions rather than estimates.
- On April 27, the bank announced its next phase of strategy to address future regulatory directions and new challenges in a consolidating industry, reaffirming its commitment to be a leading global bank based in Germany. Strategy 2020 aims to reduce €200bn leverage in CB&S, deconsolidate Postbank through an re-IPO until 2016, grow in GTB and AWM and exiting 7-10 country presences. The bank's aspiration is to focus more on advisory, cash management and lending from a product perspective, while the client focus lies on financial institutions, corporate clients and HNWIs. The main targets (vs. current) are a leverage ratio of 5% (3.5%), post-tax ROE >10% (3.1%) and a CET1 ratio of ~11% (10%).



Deutsche Bank AG (EUR)	
Current Price (31/03/2015)	32.36
52-week high % change	-3.2%
Median Target Price	31.16
Market Capitalisation (mn)	39,220
Return on Common Equity	1.7%
Dividend Yield	2.5%
Beta (vs. SX5E INDEX)	1.1x
Total Debt/Equity	288.9%

Source: Bloomberg (as of 30.04.2015)

Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Book Value (m)	P/B	ROE	P/E
Deutsche Bank AG	DE	EUR	39,813	73,223	0.5x	2.6%	34.0x
HSBC Holdings PLC	GB	GBp	125,099	199,978	1.0x	7.5%	14.6x
JPMorgan Chase & Co	US	USD	242,186	232,065	1.1x	9.8%	10.6x
BNP Paribas SA	FR	EUR	71,530	93,641	0.9x	7.5%	455.0x
Societe Generale SA	FR	EUR	35,490	58,813	0.7x	5.3%	12.2x
Commerzbank AG	DE	EUR	15,435	26,960	0.5x	1.4%	32.8x
75th Percentile					1.0x	7.5%	33.7x
Median					**0.8x**	**6.4%**	**23.7x**
25th Percentile					0.6x	3.3%	12.8x

- We chose a set of five universal banks as peers for the purpose of this analysis. When comparing the current P/E ratio, Deutsche Bank seems to be overvalued, with a share price in the top quartile relative to reported earnings. On the other side the bank appears to be undervalued from a Price-to-Book perspective. One explanation might be Deutsche Bank's relatively high equity ratio coupled with one time payments from litigations, which drive EPS down in the short run, but are not equally reflected in the share price.
- From an ROE perspective Deutsche Bank underperforms the market and is only ahead of it's German rival Commerzbank, while JPMorgan Chase is close to Deutsche Banks's set target of 10%. We believe that the announced €3.5bn in cost savings and a stronger focus on core competencies will allow higher future returns even considering regulatory pressure on banks regarding higher capital cushions.

Analysts' Corner

- NIC's estimation method resulted in a 43.81€ target price. This analysis was conducted based on book value and its respective price multiple. Other multiples, such as P/E were not taken into account, given one-time record litigation fines.
- According to our model, there is a 65% probability, that the target price will range €28.7 to €58.9. There is a slightly higher chance of an underperformance of the set target with an increasing probability at the lower end of the set range.
- Our target price is above the consensus target price, which may not yet fully factor in the recent strategic announcements described on the previous page. Similar to Analysts expectations, we see the book value per share to be slightly under the current value in the short run, before being successively increased over the next couple of years in the course of the 2020 5% target ratio.

Target Price	
Current Price	28.44
Consensus Target Price	30.50
NIC's Target Price	43.81

Book value per share	
Current	56.84
Market Estimate	51.40
NIC's Estimate	51.54

Price/Book	
Current	0.51
Market Estimate	0.56
NIC's Estimate	0.85

Source: Bloomberg (as of 30.04.2015)

4. Mergers and Acquisitions

Announced Date	Target		Buyer		TV (m)		TV/EBITDA	Announced Premium
	Company	Country	Company	Country				
03/05/15	Ironshore	US	Fosun	HK	$	2098.00	-	-
29/04/15	Perrigo	US	Pharmaceutical Industry Mylan Co	US	$	32441.10	28.6x	-
29/04/15	Salesforce.com	US	Microsoft Corp	US	£	48012.89	84.8x	-
27/04/15	Pharmaceutical Industry Mylan Co	US	Teva Pharmaceuticals	HK	£	26513.70	18.2x	29.03%
24/04/15	Time Warner Cable Inc	US	Charter Communications	US	$	44000.00	8.3x	-

- M&A deals are driving the market during the current year, 2015. Mega deals have doubled compared to 2014, and capital is ready to be invested by both firms and private equities. Moderate deals are also booming as companies find a way to optimally combine their core businesses.
- In addition, there is an unusual feature common to recent transactions, which is the rise in the share price in both companies involved, this might be the response of the optimism that runs the markets these days.
- Both Europe and US economic environment is pumping M&A deals to a maximum, the current market outlook is favorable given the strong stock market and the low interest rates, registering $3.31bn and $3.58bn of volume traded in April respectively. Moreover, the future expectations in the US of higher interest rates are not scaring the companies that drive their transactions based on supported growth ambitions and as a way of sustaining the business in the long run.
- Oil industry is going through major changes with the recent acquisition of BG Group by Shell and the crash in prices of nearly 40% since June 2014 and the rebound of 11%. Other big players in the industry are still waiting for a better opportunities for potential targets, as the market prices are not fully adjusted for the current state of the sector. The sector does not depend on the US, it's also highly sensitive to the Iran come back operations and consequent Saudi Arabia decisions
- Fosun International seeks to acquire the Bermuda-based insurer, Ironshore, for $2bn. This is the 15th deal Fosun as entered in 2015, diversifying its investment scope from Club Mediterranée, to Circe du Soleil and Thomas Cook (tour operator). This announcement has lead the current stock price of Fosun to rise 10.8% in Hong Kong on March 3rd.
- The acquisition of Ironshore, comes as no surprise since Fosun owns 20% of the company already. The company wishes to take advantage of the negative correlation of the insurance industry stock trend with the general market, enabling the company to find foundation and funding in the insurance companies attained. The company has recently acquired Fidelidade (PT) for $1.5bn and Meadowbrok (US) for $433m.
- Moreover, in the Pharmaceutical industry Mylan proposed an offer of $32.4bn to acquire Perrigo early this month, that was rejected by the target company. In parallel, Teva Pharmaceutical Industries Ltd is still committed to acquire Mylan, that has also rejected the last proposed value of $26.5bn saying that the offer is below the company's fair price. In all, there is a battle in place between generic drug-makers.
- Most recently, Microsoft expressed the intent to acquire Salesforce by $48bn. This deal will change the market structure, Amazon is the current market leader when it comes to cloud CRM and infrastructure services. Microsoft, with this strategic acquisition will step up and become the market leader. Moreover, Microsoft and Salesforce have a huge number of mutual customers and a shared goal to enable productivity and lock those customers into their solutions for good.
- Finally, Charter Communications has proposed the acquisition of Time Warner for $44 bn. A year ago, Comcast made a $45bn offer for the Time Warner Cable, saving the latter from falling into de arms of Charter cable. Last week, with pressure from Federal Communications Commission Comcast abandon the bid and Charter Cable is back with a proposal, but now with a greater market value. Note that the merge TWC-Charter would be a telecommunications giant, with 15.6 million video subscribers and 16.4 million broadband customers.

 Source: Bloomberg (as of 30.0.2015)

The NIC Fund

Student-run Virtual Fund

April 2015

Nova Investment Club

www.novainvestmentclub.com

1. Macro Outlook

Europe

The current situation in Europe is monopolized by two main facts: the Greek's deadlock and the on-going ECB QE purchasing plan. If the main effect of Central European Bank is pushing yields down (even beyond zero, as the counterintuitive market situation is showing), on the other side the Greek's turmoil had created an high-to-quality phenomena making periphery yields slightly raising (resulting into an ambiguous effect between the two strengths on Spain, Portugal and Italy) and Germany heaven rates lowering and lowering. The fear of the Greek's default did not affect only the bonds market, the panic hit the equity market as well: the gauge of anxiety in Euro Stoxx 50 options jumped in April into the highest level in more than 12 years relative to a similar volatility measure in U.S. equity derivatives indicating that investors battened down the hatches to protect their gains, amplifying cost of hedging. Opinions about what will happen about the Eurozone are split in two: one hand, Europe seems to be preparing to a default, with many politicians getting irritated at what they see as the unprofessional negotiating tactics and confrontational rhetoric of the Greek government, having also begun to make contingency plans. On the oversea side, US seems to warn Europe about their overconfident attitude on the Greek question, urging them to rely too much on the market reaction that seems to have already incorporated and priced the crash. In the short term, a default would almost certainly lead to the suspension of emergency European Central Bank liquidity assistance for the Greek financial sector, the closure of Greek banks, capital controls and wider economic instability. The wish is not repeating the mistaken committed with Cyprus in 2010. Right now, we can just observe investors behavior indicating some fear of the unknown until a final decision will be arise from the Greek's negotiation with the Troika. However, on a longer-term view, by looking at the economic indicators we do see how most of them continue to suggest improving growth. Industrial production lately rebounded to 1.1%.

US

The US recorded its biggest monthly trade deficit since the 2008 global financial crisis in March, fuelling concerns that the economy contracted in the first three months of the year. This reinforced the dilemma facing the Federal Reserve as it ponders when to raise rates and bring monetary policy back to a normal one. How long the slowdown in the economy will continue? Many economists say they still expect the US economy to bounce back in the second quarter. The US economics indicator indicate a low-almost-absent inflation, a softly decelerating industrial activity that low the short term expectations about the country.

Table of Contents

The NIC Fund

Student-run Virtual Fund

April 2015

Nova Investment Club

www.novainvestmentclub.com

The US economic condition contributed to stoke the FOMC debate about the right moment to hike rates. Several members of the FOMC expected interest rates to rise in June on the back of improvements in the economic outlook. However, others believed that falling oil prices and the strong dollar would keep inflationary pressures at bay, meaning that the Fed could wait until later this year or even 2016 before hiking rates. The latest flow of news however, has reinforced the view of a delaying in the normalization monetary policy action of the Fed.

Asia

China keeps decelerating, recording a lowering economic activity. Its GDP growth fell from 7.3% to 7% in last quarter. Its main consequences affected many emerging markets, since the primary effect is a downtrend of commodity prices. The answer of Chinese policy makers basically is reflected into the monetary stimulus currently taking place. The required reserve ratio has been cut more than once, as the main refinancing rate. The effort of Chinese authority is aiming at avoid any collateral effect in the country strongest sector, as the real estate (demonstrated to be very sensitive to the Chinese growth trend). In Japan, the fight against deflation persists even though the first good signals from the equity markets have been arising. Prime Minister Shinzo Abe has moved to reinforce the Bank of Japan's fight against deflation by appointing a Toyota adviser to its policy board. Japan's exporters have generally backed the Abenomics stimulus that began in 2012 with monetary easing as its first arrow. Domestic companies such as Tepco, by contrast, have suffered from the higher cost of fuel imports.

Emerging Markets

The end of the favorable global cycle of commodity boom and growth in China and abundant capital flows to emerging markets have affected emerging economies. The slowdown is general, but not uniform. The intensity of the downturn depends on domestic policies. Some policies amplify external shocks, while others create economic resilience. There are examples of both types in Latin America. In Argentina, the economy faces its second year of recession, while in Colombia and Chile growth is still reasonable. Brazil seems to show some weak signal of a rebound, after Petrobras scandal has literally overshadowed the country and financially distressed the biggest industry country players as well as confirming the high pace of corruption of the country.

Table of Contents

2. Fixed Income, FX and Commodities

Diversification

•The great performance of the Oil, which gave a 17.6% of return during the last month, was almost completely offset by the good trend of the Euro. The European currency gained 3% against the Dollar and the Iranian currency.
•Still confident on the quantitative easing effects, I maintain the short position on the EUR/USD exchange rate. However, I close the long position on the Iranian currency, as the rupia is not showing positive signs even though the GDP's forecasting seems to be excellent. Given the comforting signals coming from the Oil, I strengthen my position to the 30%.
•The next hot trade is a short position on the Japanese bond. The yield reached the lowest value ever on January, and since then is showing little signs of recovery. Yields cannot go much lower.

Analyst: Andrea Ricciardi
andrea.ricciardi@novainvestmentclub.com

Trade Summary:
Long 20% US Treasury 10y
Short 20% JP Treasury 10y
Long 30% Oil
Short 30% EUR/USD

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

Is avoiding Greek's effect possible?

•The last month performance was not as good as the previous ones. A great wealth of the portfolio was Eurozone focused (with a large concentration on the periphery) and Greek's effect 'asserted loudly its self': the increasing in yields due to the recent turmoil with the corresponding flight-to-quality towards German heaven affected the price of most sensitive securities such as Italy, Spain and Portugal. The overall portfolio recorded an aggregate -1%. Thanks to the exposure to international economies like China and Dominican Republic the strategy managed to keep conservative.
•On the Bank of China contrail, I decided to keep its Bond. I am bullish on the upcoming new monetary stimulus from the Monetary Policy Board since the latest news flowing from the industrial production were not excellent. I therefore decide to increase my exposure to the Chinese Bond. Same reasoning for the Dominican Republic, which recorded a plus 20 bp this month.
•For what concerns European periphery, one would say that the market already priced the Greek's default and given the ECB QE purchasing program proceeding would expect the price of these securities to keep growing. I partially agree with this view, confident that Greek's Government can still affect the fixed income. Following this reasoning, I decided to rebalance my position to Portugal and Italy.
•The previous spread on positive-negative yields Bond was not as successful as I thought. While the short position on 10YUS Notes brought some benefits (+3%), my bullish vision about Spanish was biased and did not reveal effective (-5%). This led me to close the long-short position.

Analyst: Edoardo Colella
edoardo.colella@novainvestmentclub.com

Trade Summary:
Long 25% DRGB 10Y
Long 25% CGB 10Y
Long 25% BTPS 10y
Long 25% PGB 10Y

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

BoJ Struggles to Meet Inflation Target

▪The portfolio over the last month has not performed as well as in previous months and has pared gains to 7.6% from a high of 9.5%. The main reason for the bad performance is due to a combination of trades that lost money such as the long GBPEUR trade that lost 1.31% and the short COPUSD trade that lost 4.9%, although this trade had a relatively low weighting therefore the contribution of the loss was only 50bps.
▪Looking forward I believe the pressure for a continued depreciation of the euro is still plausible although potentially not as pronounced as previously thought to be. The Algebris Credit fund has continued its upward trend and has potential to continue its recent trend. I am also going to close the CPOUSD trade mainly due to the fact that my bearish.
▪I will replace the COPUSD trade with a long position in the USDJPY as the fundamentals remain soft and the BoJ is struggling to meet its 2% inflation target, the trend in USDJPY is likely to remain upwards.

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

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

Playing Pandora's Song

▪In April, the portfolio of last trading ideas performed badly due to the bad performance of the EuroStoxx 50 in the last week in which the Index suffered a huge loss. Since the portfolio overweighted an ETF on that Index, it had a significant impact on the overall -1.4% performance. S&P ended the period yielding 0.24%.
▪For the next month, I expect the superior performance of European Markets that has been the trend of the year to continue. However, I'll focus on Germany again as I acknowledge it was a mistake to close the position on the DAX. Germany companies are the ones that benefit the most from a weaker euro so I'll replace the ETF on the EuroStoxx in the DAX with the iShares Core DAX UCITS ETF D. I'll also maintain the 20% position in the ETF on European Financials.
▪Finally, I am investing 40% in an American stock: Pandora, an internet radio provider operating in the U.S.. The stock has been devaluating a lot during the past months (mainly due to concerns on the negotiations with CRB about the royalties it must pay to artists) and I believe it is now trading cheap when compared to other technological companies. The attractiveness of the stock lies in the fact that it has a significant room for improvement in its advertising model, which accounts for 80% of the revenues. The currency risk is almost negligible since most of revenues are generated in the U.S.

Analyst: João Cunha
joao.cunha@novainvestmentclub.com

Trade Summary:
Long 40% DAXEX GY Equity
Long 20% EUFN:US
Long 40% P US EQUITY

Asset Class: Equities
Region: Europe

Strategy seeking

- In line with what has been my reasoning, the positions in Apple (APPL US) and Volkswagen (VOW GR) will be maintained, although with slight readjustments. It is my belief that Apple will continue to beat analyst's estimates as a result of its leading position as a communications equipment supplier. Volkswagen, on the other hand, is expected to continue to grow mainly due to the devaluation of the euro as well as because of the new growth prospects for Europe and decreased levels of deflation. As to the remaining stakes, they will be closed either due to poor performance or because I do not foresee any short-term upside potential.
- Regarding the new acquisitions, the placement will be spread throughout investment strategies based on momentum and value and growth stocks. As to the former, JP Morgan (JPM UN) has been clearly under a bullish trend given the latest earnings surprises and the growth rate of sales and earnings. The value stocks will be hereafter represented by Vinci (DG FP) and Halliburton (HAL UN). The first has been among the leaders in the French construction market and, given the most recent prospects for the evolution of the European market, it is my opinion that the stock will perform positively. In contrast, Halliburton, a big American provider of services and equipment for the oil and gas industry, has been recently hampered, among other things, by the decreasing oil price; nevertheless, signs that the commodity may in fact be picking up, the latest earnings surprises and the efforts to cut cost might have proved enough for the fast recovery of this giant. Finally, firms such as Biogen (BIIB US) and Mastercard (MA US) have been considered valuable growth stocks with a positive earnings evolution and strong returns on invested capital. Therefore, I regard these assets as important contributors to my portfolio

Analyst: Rita Brites
rita.brites@novainvestmentclub.com

Trade Summary:
Long 10% DG FP
Long 10% HAL UN
Long 10% MA US
Long 10% BIIB US
Long 10% JPM UN
Long 20% APPL US
Long 30% VOW GR

Asset Class: Equities

Into Diversification

- Last month performance of my portfolio was the worst since inception, with a negative return close to 2%. All positions yielded low but negative returns. I will keep my positions because I still believe on the valuation. In order to diversify risk, this month I'm going to open positions in new markets where I believe that the trend is bullish – Japan and China.
- As global rates normalize investors tend to move from EM to the recovering developed economies, which presents a potential problem for EM since FDI trend of last years no longer supports growth, increasing inflation and labor costs. This being true, in Asia, Japan reported its first monthly trade surplus since 2012, five times higher than expected, where inflation pressures have receded to 0,2%. Although, my point of view is that monetary policy is being asked to solve a demographic problem that cannot be solved with money, namely the depopulation of Japan thanks to low birth rates and the effects of a restrictive immigration policy.
- In China, the central bank continues to ease by lowering the reserve requirement, still the highest in the world (18,5%), which is a particularly measure for financials and more may be on the way. Although GDP growth target is around 7% for this year, latest releases show some crack in the economy.
- Both countries indexes rallied quite significantly since January, and I'm still positive that there is room to go and I will open a long position on Shanghai Stock Exchange Composite Index but more particularly on Chinese Financial Sector (Global X China Financials ETF - CHIX), and long on Nikkei 250 Index (iShrares Nikkei 225 UCITS ETF).

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

Trade Summary:
Long 30% CHIX ETF
Long 20% EUFN ETF
Long 20% IWM ETF
Long 10% VOW GR
Long 10% KORS US
Long 10% Nikkei 250 ETF

Asset Class: Equities
Region: U.S, Europe, China and Japan

Upcoming Events

From	To	Event	Location
04-05-2015	07-05-2015	European Parliment Committee Meetings	Brussels, Belgium
05-05-2015		Spring European Economic Forecast	Brussels, Belgium
06-05-2015		Governing Council of the ECB: non-monetary policy meeting	Frankfurt, Germany
07-05-2015	08-05-2015	Britain Monetary Policy Committee Meeting	UK
07-05-2015		UK General Elections	UK
11-05-2015		Eurogroup Meeting	Brussels, Belgium
20-05-2015		Governing Council of the ECB: non-monetary policy meeting	Frankfurt, Germany

Visit **novainvestmentclub.com** for more updates

Our team:

Investment Banking Division
Head: Pedro Fragoso pedro.fragoso@novainvestmentclub.com
Ana Gonçalves | Carolina Alves | Daniela Feijoca
Francisco Campos | Georg Röder | Lara Souhoka
Moritz Gesang | Pedro Marques | Sofia Sotto-Mayor

Financial Markets Division
Head: Tiago Pereira de Mello tiago.mello@novainvestmentclub.com
Andrea Ricciardi | Edoardo Colella | João M. Cunha
Miguel Leal da Costa | Rita Brites

Email us:
nic@novainvestmentclub.com

Corporate Partners

JORNAL DE negócios

ATRIUM

CrowdProcess

Academic Partners

CMO

Nova Finance Center

nic Nova Investment Club