Newsletter

November 2015

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1. Macro Overview

The month of October was shaped by the rising concerns of the major central banks regarding the health of the global economy. Investors' fears over a new recession in the upcoming year have been supported by declining U.S. corporate revenues, as well as falling commodity prices and deflation. After meeting on the 28th of October, the U.S. Federal Reserve kept interest rates unchanged at 0.25% and created speculation for a rate hike in December, as the more favourable domestic economic conditions may not justify the low interest rates.

While the U.S. Federal Reserve is expecting to increase interest rates in December 2015, European Central Bank's president, Mario Draghi, is sending the Eurozone the opposite direction after hinting at an expansion of its EUR 1.1tn quantitative easing programme in December 2015 and cut the deposit facility rates, as the poor performance of emerging markets threatens the Eurozone's economic recovery. Inflation rates are now at 0% and the deposit facility rates are at -0.2%.

The People's Bank of China cut benchmark interest rates for the sixth time in 12 months, aiming to stimulate the economy through monetary policy, as its global growth rate was revised to 3.1% in 2015, its slowest annual rate in 25 years. On the 24th of October, the PBOC lowered their one-year benchmark bank lending rate by 25 basis points to 4.35% and the one-year benchmark deposit rate by 25 basis points to 1.50%.

Emerging markets dependent on commodity prices are being hit by the likeliness of a hike on U.S. interest rates, the slowdown in the Chinese economy and the decrease in demand for raw materials that drive the economy. Among the most vulnerable ones is the Brazilian economy with the Real depreciating close to 30% against the U.S. Dollar year-to-date, high levels of inflation around 8.5% and its GDP expected to shrink by 3% in 2015.

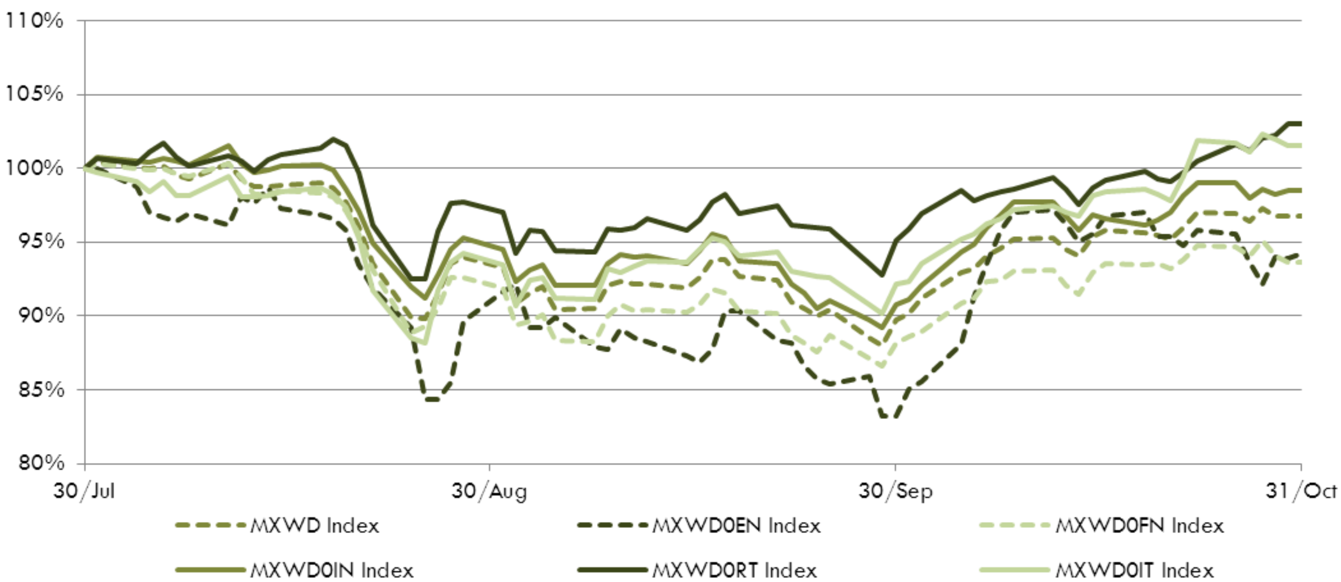
Equities experienced a positive month with the FTSE World Index climbing 7.8% in October to record its biggest monthly gain in four years. The S&P 500 and the Eurofirst 300 both grew by 8.3%. There were USD 544bn worth of mergers and acquisitions disclosed in October, the second busiest month of the year, making it almost a total of USD 4tn in 2015.

Countries' Economic Data

Country	September Inflation (%)		Exchange Rate		Unemployment Rate (%)		10 Year Yield	
	MoM	YoY	USD	Monthly Change (%)			Current (%)	Montlhy Change (bp)
United States	-0.2	0	1	-	5.17	Q3	2.142	9
Eurozone	0.1	0	1.1006	-2.16	10.87	Q3	0.517	-7
Portugal	0.8	0.875	1.1006	-2.16	11.90	Q2	2.540	12
Japan	0.1	0	0.008291	-0.72	3.37	Q3	0.309	-2
Greece	1.8	-1.719	1.1006	-2.16	25.03	Q2	7.887	-41
Russia	0.6	15.7	0.01561	2.70	5.27	Q3	n/a	n/a
China	0.1	1.6	0.15833	0.73	4.05	Q3	3.080	-20
Brazil	0.54	9.49	0.2593	5.36	7.57	Q3	15.890	-23

- In the table above the first thing you are likely to spot is that almost all 10 Year Yields decreased during October. The exceptions were the United States and Portugal with increases of 9bp and 12bp, respectively. In the Eurozone, the ECB announced the possibility of an accommodation of monetary policy in December what generated uncertainty among investors and contributed negatively for the monthly change of the 10 Year Yields.
- On the currency side, it is possible to see that the currencies that belong to the emerging countries, namely Brazil Real (5.36%) and the Russian Ruble (2.70%) appreciated against the USD in October. By contrast, the Euro depreciated for another month against the USD. The Chinese Yuan ended the month with the highest daily appreciation (0.73%) against the dollar in the last 10 years.
- The United States' economy is currently in deflation. Consumer Prices went down by 0.2% MoM in September, mainly driven by the fall in gasoline prices. In annual terms , the CPI was unchanged for the first time in four months.

Sectors' Overview



- Overall, sector indexes showed an upward trend during the month of October. The Retail Index (MXWD0RT) continues to outperform the other indexes, driven by low oil prices. The Information Technology Index (MXWD0IT) was one of the best performers in October, driven by the exceptional and surprising earnings that some of the big companies in the sector presented.
- The MSCI World Energy Index (MXWD0EN) started the month with a significant increase due to the future positive expectations regarding oil prices. However, from mid-October onwards the Index exhibited a slightly downward trend mainly driven by the volatility of the Chinese economy and the losses that some companies in the sector announced.

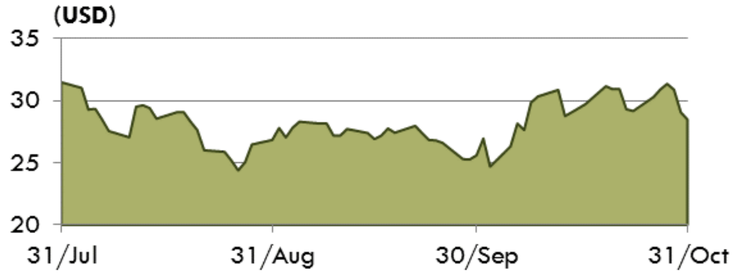
2. Followed Companies

Twitter Inc.

(Ticker: TWTR US Equity)

Industry: Media

- Twitter's third quarter results reported USD 592m in revenue beating analyst's estimates of USD 560m and up 58% YoY. However, Twitter cut revenue expectations for its fourth quarter and sales expectations now sit between USD 695m and USD 710m below estimates of USD 742m.
- Twitter faces the problem of slowing growth in the number of monthly active users (MAUs) a key metric in evaluating social media companies. MAU is currently up 13.4% compared to last year. The short messaging service (SMS) benchmark is 14%.
- There is also the struggle to attract new users. Since June Twitter has only managed to add 3 million new users compared to Instagram's 300 million.



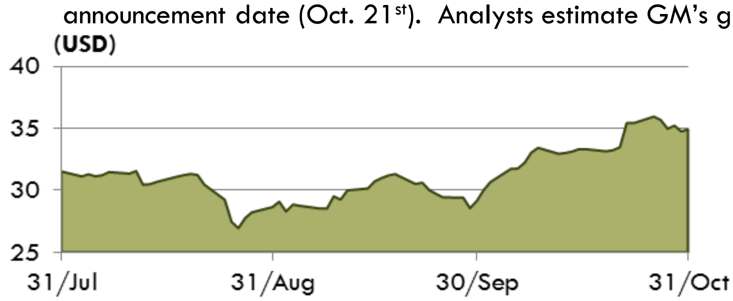
Price (USD):	28.46
Target Price (USD):	33.50
Up/downside:	0.18
Performance 3M:	-0.08
P/E Ratio:	n/a
ROC/WACC:	-0.97

General Motors Co.

(Ticker: GM US Equity)

Industry: Automotive

- GM's third quarter results posted a 3.1% decline in worldwide sales with 2.33 million vehicles sold down from 2.41 millions one year ago. GM's South American sales dropped 31% due to currency exchange and economic problems most notably in Brazil. Sales in China also posted a 4.2% decline.
- The setbacks in Asia and South America was partially offset by better performance in North America with sales up 5.2% and Europe up 1.1%. Low fuel prices and interest rates in the US contributed to truck sales up 16%.
- GM's earnings growth of 55% was inline with estimates. The stock price up 5.8% on the announcement date (Oct. 21st). Analysts estimate GM's growth to be 12% for next year.



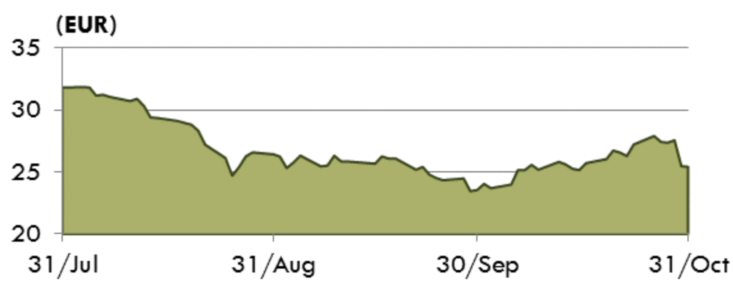
Price (USD):	34.91
Target Price (USD):	39.50
Up/downside:	13.1%
Performance 3M:	12.2%
P/E Ratio:	7.4x
ROC/WACC:	0.0x

Deutsche Bank AG

(Ticker: DBK US Equity)

Industry: Banking

- John Cryan Co-CEO of Deutsche Bank, Germany's largest bank, announced (Oct. 29th) that it would stop paying dividends for the next two years. These efforts are to help cover legal fees and fines as the bank faces investigations of Russian money laundering.
- Third quarter results yielded a record net loss of EUR 6.0bn. Revenues were EUR 7.3bn down EUR 534m or 7% from the same quarter last year. This led to the stock price falling 7.6% on the day of announcement.
- The bank also plans to cut 15,000 jobs in London and sell off operations that currently employ 20,000 people in an effort to improve performance.



Price (EUR):	25.40
Target Price (EUR):	29.00
Up/downside:	14.2%
Performance 3M:	-20.2%
P/E Ratio:	n/a
ROC/WACC:	1.0x

Source: Bloomberg (as of 30.10.2015)

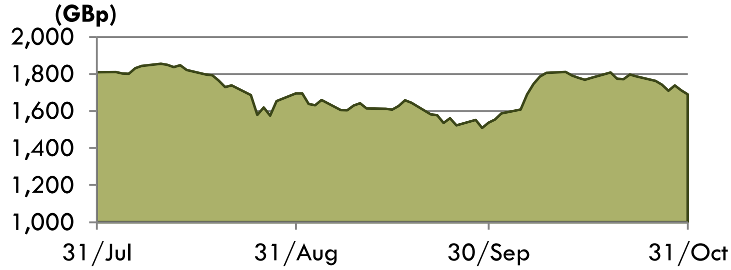
2. Followed Companies

Royal Dutch Shell.

(Ticker: RDSA LN Equity)

Industry: Oil, Gas & Coal

- Royal Dutch Shell fell 0.87% after the company reported a loss of GBP 4.84bn for the third quarter on the 29th of October, amid a plunge in the oil prices. Plus, the company had incurred huge costs for halting the Alaskan drilling and the Carmon Creek oil sands project. The net loss compares with a profit of GBP 2.81bn in the same period last year.
- The slide in Brent crude, from a peak of more than USD 115 a barrel last year to less than USD 50, negatively affected earnings of Shell and those of its competitors.
- Shell's A class shares closed down 1.5% on Thursday, 29th of October, at GDP 17.12 in London, after the third quarter announcements that showed earnings per share of GDP 0.28 against the GDP 0.49 expected.



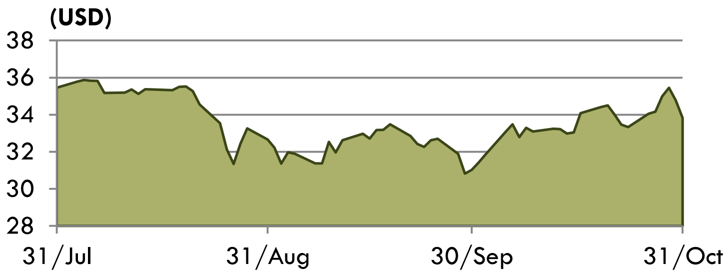
Price (GBp): ↑	1,690.00
Target Price (GBp):	2,048.35
Up/downside:	21.2%
Performance 3M:	-6.7%
P/E Ratio:	104.3x
ROC/WACC:	-0.1x

Pfizer Inc.

(Ticker: PFE US Equity)

Industry: Retail-Discretionary

- Shares of pharmaceutical company Pfizer Inc. rose 2.61%, after the company reported better then expected quarterly earnings results on the 27th of October, raising its 2015 earnings forecast. The company reported revenues USD 12.1bn against the expected USD 11.56 bn. This compares with a revenue of USD 12.36bn in the same period last year.
- Following slower sales, as its older blockbusters lost their patent protection and in order to lower U.S tax liability, Pfizer intents to acquire the Irish company Allergan Plc.
- Following the news of the possible merger between the pharmaceuticals Pfizer Inc. and Allergan Plc on the 29th of October, which can be cited as the largest M&A deal of 2015, valued at more then USD 100bn, the price on Pfizer dropped by 1.92%.



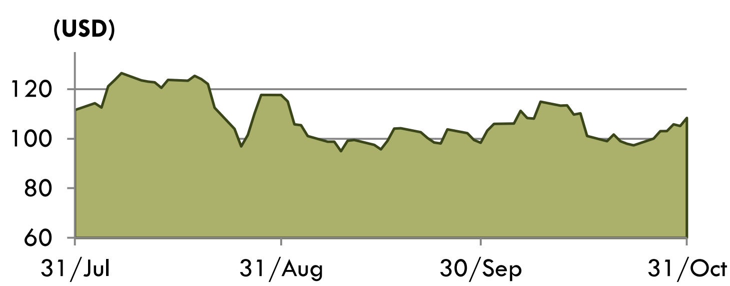
Price (USD): ↑	33.82
Target Price (USD):	39.50
Up/downside:	16.8%
Performance 3M:	-5.5%
P/E Ratio:	18.9x
ROC/WACC:	0.8x

Netflix Inc.

(Ticker: NFLX US Equity)

Industry: Biotech & Pharma

- Netflix shares were down 7% on the day the leading streamer reported lower earnings earlier this month, mainly due to a decrease of subscribers in the U.S market.
- Besides a decrease in U.S subscribers last quarter, Netflix's international growth exceeded expectations, adding 2.74 million members against a forecast of 2.4, and with a forecast of 3.5 million new members in the fourth quarter, with the release in Portugal, Spain and Italy, the company is on track to add 11 million subscribers outside of the U.S. this year.
- As the company completes its international expansion, it expects to deliver material profits, beginning in 2017.



Price (USD): ↑	108.38
Target Price (USD):	125.00
Up/downside:	15.3%
Performance 3M:	-5.2%
P/E Ratio:	287.4x
ROC/WACC:	0.6x

Source: Bloomberg (as of 30.10.2015)

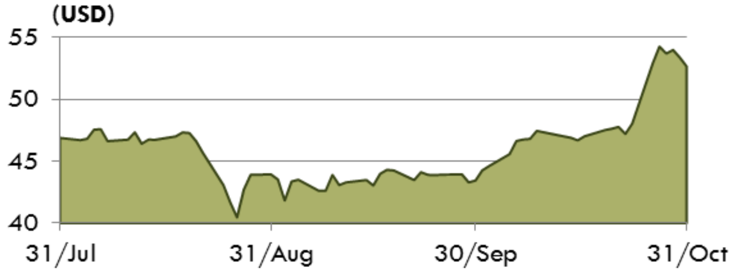
2. Followed Companies

Microsoft Corp.

(Ticker: MSFT US Equity)

Industry: Software

- Microsoft 10, released in early August this year, continues to grow, now claiming 7.94% market share, up from 6.63% last month.
- Its Internet Explorer Browser has only about 35% market share nowadays, which represents a huge declined when compared to the 80% in 2008.
- Revenue in Q3 of 2015 added up to USD 21.729bn, which represents a 6.5% increase in relation to the value in 2014 same period of USD 20.403bn.
- Although its share price appeared somehow constant over the course of the year, there was a significant increase of roughly 19% in this month of October, as Microsoft's share price closed the month priced at USD 52.6, while beginning the same month at USD 44.61.



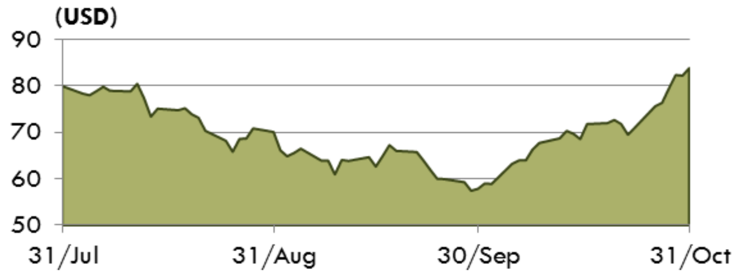
Price (USD):	52.64
Target Price (USD):	55.00
Up/downside:	4.5%
Performance 3M:	12.7%
P/E Ratio:	20.9x
ROC/WACC:	1.1x

Alibaba Group

(Ticker: BABA US Equity)

Industry: Retail

- During the September quarter, Alibaba repurchased and canceled 40.8m of its shares for a total price of USD 2.74bn, from a total of USD 4bn to be repurchased over a period of 2 years that started in August this year.
- In October 16th, Alibaba announced that it made a non-binding proposal to the board of directors of Youku Tudou Inc. to acquire all its outstanding shares for USD 26.60 per share in an all-cash transaction.
- Revenue for the first nine months of 2015 was USD 3.49m, an increase of 32% YoY.
- After having been hit hard during this year, shares ended this month trading at USD 83.33, a 43.3% increase over last month but still 18.3% lower than last year's price at this date.



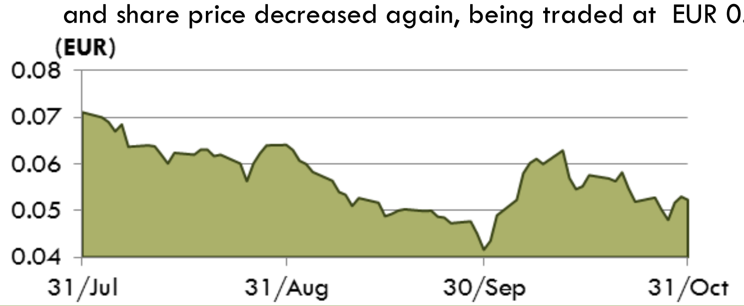
Price (USD):	83.83
Target Price (USD):	95.00
Up/downside:	13.3%
Performance 3M:	7.0%
P/E Ratio:	67.3x
ROC/WACC:	1.2x

BCP SA

(Ticker: BCP PL Equity)

Industry: FIG

- In the beginning of October, Portugal's largest listed bank Millenium BCP announced a merger of its Angolan subsidiary Banco Millennium Angola with the African country's privately-held Banco Atlantico, which will help improve its solvency ratios.
- Its shares have showed high volatility throughout the year, appearing in the end of September, priced close to EUR 0.04, which is 59% below its highest price quoted this year of EUR 0.988. Until October 8th, the date of the announcement of the merger, shares surged more than 50%, closing at EUR 0.0602, attributing BCP a market cap of EUR 3.59bn.
- BCP reported a 9-month net profit of EUR 264.5mm, lower than previous year's EUR 292mm, and share price decreased again, being traded at EUR 0.05 in the end of the month.



Price (EUR):	0.05
Target Price (EUR):	0.08
Up/downside:	43.4%
Performance 3M:	-25.3%
P/E Ratio:	42.2x
ROC/WACC:	1.3x

Source: Bloomberg (as of 30.10.2015)

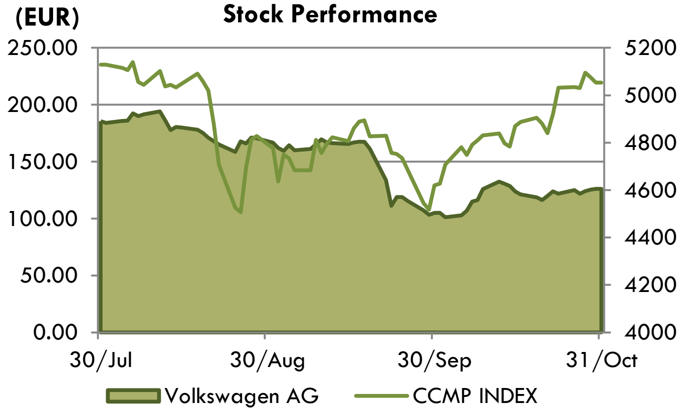
3. Detailed Review - Volkswagen

Company Overview

- Volkswagen (VW) is a global leading automobile manufacture and the largest carmaker in Europe. The group incorporates twelve brands, among others Audi, Seat, Skoda and Porsche, which operate independently.
- Recently VW was hit by one of the biggest scandals in the industry, caused by irregularities in the software used in particular diesel engines, which affected about 11 million vehicles worldwide. This situation resulted in an operating loss of EUR 3.48bn, its first quarterly deficit in more than 15 years, compared with a EUR 3.23bn profit a year ago. However, revenues went up by 8.5% to EUR 160.3bn as a consequence of a positive impact from exchange rates and the business development in the financial services sector.
- Prior to the release of its results, the automaker acknowledged that the provisions of EUR 6.7bn it set aside in the third quarter will not cover the full cost of the lawsuits, fines and repairs the company is set to be confronted with.
- VW sold its 19.9% equity investment in Suzuki on the 17th of September 2015, at the quoted market price of EUR 3.1bn, after finishing a partnership due to the supply problems of diesel engines.
- The VW group along with its brands are in the process of incorporating a new management structure, which consists in measures to concentrate more closely on efficiency and topics for the future. Newly presented models won several awards and the group became the first foreign automobile manufacture to open its own engine plant in Russia, with a total investment of EUR 250mm. Moreover, VW signed a EUR 2.8bn agreement with Nokia Corporation, aiming to create products and services available in the form of open, independent and value-creating mobility services, as for instance cloud-based maps.
- In September 2015, VW AG, Allianz SE, Basf SE and Bayer AG announced their plan to create the German cybersecurity organization DCSO, that aims to help German companies improving the security architecture of their IT Systems.

Corporate News

- The German car maker said it had uncovered inconsistencies when determining carbon dioxide emission levels that could affect roughly 800,000 cars. VW estimated the economic risks of the problem, apart from the diesel emissions cheating scandal, could be about EUR 2bn.
- The European Investment Bank, which had loaned EUR 4.6bn to VW for research into low emissions, launched an investigation to determine whether the group had used the money appropriately.
- In October 2015, VW and leading Chinese Bank Industrial Commercial Bank of China Limited (ICBC) signed a memorandum of understanding, setting out a long-term strategic partnership. This cooperation will contribute to add value for their costumers, suppliers and dealers. ICBC will particularly provide VW with a wide range of banking services in China.



Volkswagen AG (EUR)	
Current Price (31/10/2015)	126,10
52-week high % change	-50,5%
Median Target Price	144,67
Market Capitalisation (mn)	55 601
Return on Common Equity	6,7%
Dividend Yield	3,9%
Beta (vs. CCMP INDEX)	1,3x
Total Debt/Equity	148,6%

Source: Bloomberg (as of 30.10.2015)

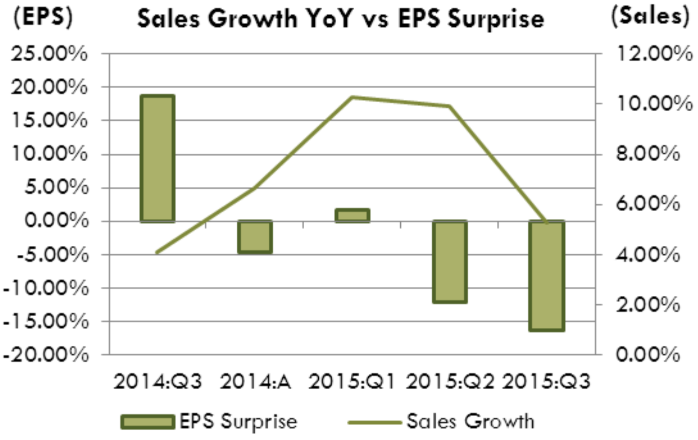
Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
Volkswagen AG	DE	EUR	55,715	30,332	10.0x	0.9x	0.1x	0.6x
Bayerische Motoren Werke AG	DE	EUR	60,360	102,470	10.1x	5.9x	1.0x	1.5x
Daimler AG	DE	EUR	84,637	62,665	11.0x	2.7x	0.3x	1.7x
AUDI AG	DE	EUR	29,482	12,431	6.6x	2.0x	0.3x	1.5x
General Motors Co	US	USD	55,882	44,012	7.6x	3.0x	0.2x	1.7x
Toyota Industries Corp	JP	JPY	2,010,437	2,649,805	15.8x	10.9x	1.1x	0.9x
75th Percentile					10.8x	5.1x	0.9x	1.6x
Median					**10.1x**	**2.9x**	**0.3x**	**1.5x**
25th Percentile					8.2x	2.2x	0.2x	1.1x

- For the purpose of this analysis, a set of three German traded stocks were chosen. Among them the largest peers in the domestic market and Volkswagen AG's subsidiary AUDI AG. Additionally, the two largest international competitors in sales of cars were considered in the comparable analysis.
- When comparing the current P/E ratio of Volkswagen AG to the median ratio, it can be argued that the group is correctly valued in relation to the market sector. In contrast, regarding the EV/Sales and EV/EBITDA multiples, the respective values are far below the 25th percentile. This suggest that Volkswagen AG is undervalued compared to its peers, despite the group reported an increase in sales in 2015Q3 compared to the corresponding quarter of the previous year. However, considering the recent legal issues the group faces, the results might be explainable by investors' future expectations that high legal costs might reduce earnings. This is in line with the recent strong depreciation of the stock price, resulting in the low enterprise value.
- With regard to the EBITDA, it is interesting to note that Volkswagen AG reported for the first time, after thriving consistently in past periods, a negative EBITDA in 2015Q3. This is due to an initial adjustment of the earnings due to special items attributable to the diesel issue.

Earnings Analysis

- VW was in an ostensible good shape, with positive prospects for its business despite the Chinese turmoil. After the disclosure of Volkswagen's forged emission figures, its share price dropped more than a quarter of its value. Its shares have since been performing similarly to the automobile industry in general.
- Investors were demanding, remaining confident that VW could challenge Toyota's leading position as the world's largest automotive manufacturer. Despite the growing sales YoY, analysts tended to expect more from VW, due to the depreciated Euro and the new models in the making.
- Lower than expected EPS also took into account provisions made by the company, which did not cause that big of a reaction in the market, since judicial and regulatory developments seems to be what can really define how much edge will VW have to overcome its biggest challenge yet.



	Change in price after	
Quarter	2 Days	1 Week
2014:Q3	4.43%	6.22%
2014:A	2.65%	1.89%
2015:Q1	-3.87%	-5.96%
2015:Q2	-2.65%	-2.41%
2015:Q3	2.96%	1.89%

Source: Bloomberg (as of 30.10.2015)

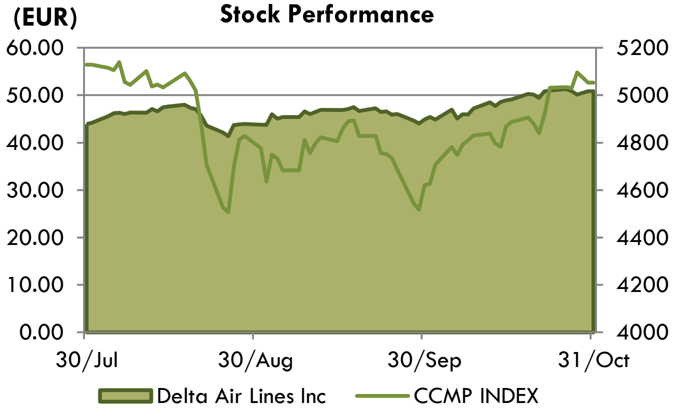
3. Detailed Review – Delta Air Lines

Company Overview

- Delta Air Lines is one of the most important airlines in the U.S. Its main hub and headquarters are located in Atlanta, Georgia. Delta operates in two segments: Airline and Refinery. It also provides maintenance and repair services for third parties. This company offers services to 316 destinations in 57 countries. It employees approximately 80,000 people, operates more than 800 aircraft and offers costumers more than 15,000 daily flights.
- This company is a founding member of the SkyTeam airline alliance, which is now the second largest alliance in the world. Delta was named the most admired airline for the fourth time in five years, as well as named to FORTUNE magazine's top 50 World's Most Admired Companies. Also, it has ranked nr. 1 in the Business Travel News Annual Airline survey for four consecutive years.
- With revenues of USD 40.85bn and a market share of 17%, Delta Air Lines is the second largest airline in the world. Only Southwest has a higher market share (17.8%). From 2014 to 2015 there was an increase of 1.20% in revenues. The company had adjusted earnings of USD 1.27 per diluted share and an adjusted pre-tax income of USD 1.6bn, which reflects an increase of USD 202m year over year on a similar basis.
- The company had an increase of 1% in operating revenue and an increase in passenger revenues by USD 56m in the second quarter. Its enhanced agreement with American Express produced an incremental USD 60m in revenue.
- The debt-to-equity ratio is 0.85, less than the 0.69 of the industry average, meaning that there has been a relatively success effort in the management of debt levels. However, a quick ratio of 0.64, lower than the average of the industry that is 0.91, demonstrates a lack of ability to pay short-term obligations.

Corporate News

- The average trading volume for Delta Air Lines has been 9.5 million shares per day over the past month. Due to the strong earnings growth of 268.30% (yoy), this stock has surged by 27.58% during the current year, outperforming the rise in S&P 500 Index.
- The company decided to leave the U.S. Industry's main trade group in next April since they did not agree with the group's support for reorganizing the U.S. air traffic control system.
- Delta recently agreed to purchase up to USD 56m in preferred shares of GOL (the second largest Brazilian airline company), increasing from its early participation of 3% to 9%. The companies agreed to extend an exclusive agreement for flights between the two countries, which is subject to regulatory approvals. This ensures that the company can build a hub in São Paulo.
- Also, the firm purchased a 3.5% stake in the Chinese Eastern Airlines for USD 450 mm. This was related to the fact that China is a leading destination from the U.S. and this traffic is projected to grow at a higher rate than the global average. This agreement allows the airlines to build a hub in Shanghai.



Delta Air Lines Inc (USD)	
Current Price (31/10/2015)	50,84
52-week high % change	-1,6%
Median Target Price	60,93
Market Capitalisation (mn)	39.984
Return on Common Equity	25,0%
Dividend Yield	0,8%
Beta (vs. CCMP INDEX)	1,2x
Total Debt/Equity	110,9%

Source: Bloomberg (as of 30.10.2015)

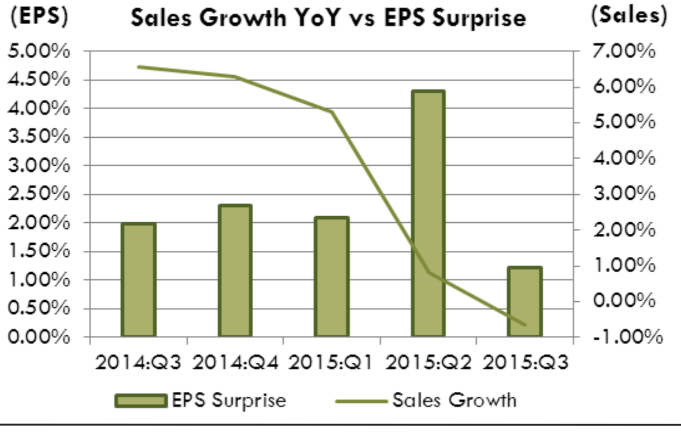
Comparable Analysis

Company Name	Country	Currency	Mcap (m)	Enterprise Value (m)	P/E	EV/EBITDA	EV/Sales	P/B
Delta Air Lines Inc	US	USD	39.984	44.974	12,0x	5,7x	1,0x	3,9x
Southwest Airlines Co	US	USD	30.105	29.677	14,4x	5,2x	1,2x	4,3x
United Continental Holdings In	US	USD	23.039	29.561	5,7x	4,1x	0,7x	2,6x
Deutsche Lufthansa AG	DE	EUR	6.206	8.629	4,7x	2,0x	0,3x	1,0x
American Airlines Group Inc	US	USD	29.134	40.999	5,4x	4,9x	0,9x	7,9x
Alaska Air Group Inc	US	USD	9.708	9.160	12,7x	6,0x	1,7x	4,1x
75th Percentile					12,6x	5,6x	1,2x	4,3x
Median					**8,9x**	**5,0x**	**0,9x**	**4,0x**
25th Percentile					5,5x	4,3x	0,7x	2,9x

- A preliminary look reveals that Delta Air Lines boasts the highest market capitalization and enterprise value among all other airline competitors. Shifting focus to some of the main multiples calculated, it may be stated that in terms of P/E and EV/Sales, Delta places in between the 50 and 75 percentiles, which may indicate a slight comparative overvaluation. According to EV/EBITDA, Delta ranks above the 75 percentile value of 5.6x, which could indicate a more significant overvaluation. The P/B ratio shows that the market believes Delta´s book value of assets is understated by a factor of 3.9x. Compared to its competitors, this P/B ratio is only slightly below the median, which indicates that it is relatively fairly priced.
- United Continental and American Airlines stand out as closer competitors among the rest since they specifically share the same target market with Delta Airlines: the upper middle class and business travelers. Across these firms, the main discrepancies lie with Delta´s elevated P/E and American Airlines´ sky-high P/B. American Airlines´ decision to repurchase USD 1.56bn of common stock and its consequent share price increase could explain this comparatively inflated figure. As indicated previously, Delta´s high P/E shows a significant stock overpricing relative to United Holdings and American Airlines.

Earnings Analysis

- The latest Q3 announcement indicates a discrepancy or surprise of little over 1% between consensus EPS and its reported value. Over the past year, Delta´s surprise in forecasted EPS has mostly been contained within 1.2% and 2.4%, with a slight outlier of 4.3% in this year´s Q2. Up until Q2 in 2015, sales growth has consistently proven to be positive. However, in light of currency volatility and the impact of the stronger dollar, Delta registered a decrease in operating revenue which is reflected as a negative sales growth in 2015Q3.
- The ongoing decline in oil prices of nearly 50% since last summer has contributed to a 40% decrease in Delta´s fuel expense from 2014Q3 to 2015Q3. This cut in operating costs has allowed Delta to see a persistent climb in its EPS from USD 0.447 in 2015:Q1 to USD 1.737 in 2015:Q3.
- The price reaction 2 days after the recent 2015Q3 announcement showed a modest increase of 2.5% as more investors were attracted by the higher reported EPS. A week later Delta´s share price continued to show an increasing trend as even more investors deposited their faith in its rising earnings. Delta´s track record of positive surprises (%) has consistently converted to positive stock price reactions. In most of these cases, prices increased within a week as investors again were inertially spurred by positive surprises.



	Change in price after	
Quarter	2 Days	1 Week
2014:Q3	6.21%	15.19%
2014:Q4	3.11%	0.02%
2015:Q1	4.43%	7.31%
2015:Q2	1.86%	2.27%
2015:Q3	2.51%	5.07%

4. Mergers and Acquisitions

Announced Date	Target Company	Target Country	Buyer Company	Buyer Country	TV (bn)		TV/EBITDA	Announced Premium
25/03/15	Kraft Foods Group Inc	US	HJ Heinz Co	US	USD	45.20	-	-
13/10/15	SABMiller	SA	Anheuser-Busch InBev	BEL-BR	USD	104.00	16.1x	50,00%
12/10/15	EMC	US	DELL	US	USD	63.00	12.0x	19,00%
29/10/15	Allergan	IRL	Pfizer	US	USD	*125.00	-	-
02/11/15	King Digital Entertainment	IRL	Activision Blizzard	US	USD	5.90	6.4x	25,00%

*Financial Times unofficial estimation

- Reaching almost USD 4.0tn worth of deals announced so far, 2015 may beat the 2007's USD 4.3tn worth of transactions all-time record, largely fostered by the subprime crisis.
- According to Thomson Reuters data, October totalized USD 514.0bn of deals which represented the fifth-biggest month in M&A history. If we include Pfizer-Allergan deal, which could cost Pfizer more than USD 125.0bn, October could beat the all-time record of USD 530.0bn of deals, that happened in June.
- Though October was the month of "headline-grabbing multibillion dollar" deals, banks are concerned about the sharp drop in number of deals in the same month. Since their business relies in the smaller deals rather the larger, this drop in volume is worrying banks about next year.
- Dealmakers have just completed the weakest October for almost 20 years as the total number of mergers and acquisitions transactions announced. Comparing to 2015's monthly average of 3,521 deals , October fell about 40.0% to 2,177 deals which compares with October 1996, with only 2,066 deals.
- Although the concern about the number of deals slowdown is general, the opinions diverge: a professor of Kellogg School of Management argues that the slowdown was promoted by the volatility in equity markets at the end of the summer while Steve Baronoff, chairman of global M&A at BoA Merrill Lynch considers that the current strong level of dialogue should continue through 2016 "as the economic environment remain conductive to deal making" mainly supported by low financing costs and low economic growth.
- After the surprising news earlier this year about Kraft Foods and Heinz merger, a even bigger deal in the industrials sector is in the horizon for the Brazilian Heinz owners 3G Capital Partners. Ab InBev's (world's leading brewer) is planning a GBP 68.0bn (USD 104.0bn) takeover of the second largest brewer in the world, SABMiller. However the deal faces a big challenge to win regulatory approvals in a vast number of markets, including in the US and China. Since both companies operate under different country based Joint-Ventures with third companies, regulators are requiring some asset sales to validate the merger.
- Tech industry dealmaking has reached the highest level since the 90s dotcom bubble, reaching approx. USD 370.0bn last month. Michael Dell and his privately run PC maker agreed to acquire data storage maker EMC for about USD 63.0bn, setting a new record in the industry. The transaction will be financed by a combination of about USD 4.0bn of new common equity from Mr. Dell, private equity Silver Lake and Temasek (Singapore's state investment company), alongside about USD 40.0bn in new debt provided by a banks' consortium. Also as part of the deal, EMC will have a "go-shop" provision for 60 days.
- Weeks after GlaxoSmithKline (UK) rejecting Pfizer's (US) takeover approach, the American drugmaker announced that is in talks to buy Botox maker Allergan. The deal, that could cost Pfizer's more than USD 125.0bn, would create the world's largest drugmaker with a market capitalization of approximately USD 300.0bn and overpassing Johnson & Johnson, which has a market capitalization of USD 277.0 bn. Still, no agreement has been reached nor there's certainty that the conversations will end up in a deal, said the Irish based Allergan in a statement earlier this November.
- The "Candy Crush" mobile game owner King Digital Entertainment is going to be sold to Activision Blizzard for USD 5.9bn, in the biggest deal in the gaming industry since Microsoft bought Minecraft for USD 2.5bn last year. Though King went public last year at USD 22.5 per share, the all-cash transaction proposes a 25% premium to the London game maker valuation at Monday's close (USD 18.0 a share). The deal will be funded by USD 3.6bn in cash and the remainder via debt. The new company will serve 500.0 million users across almost 200 countries, boosting Activision' adjusted earnings in about 30%.

Source: Financial Times; Bloomberg

The NIC Fund

Student-run Virtual Fund - November

November 2015

Nova Investment Club

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1. Macro Outlook

US

Despite the expectations for the October FOMC meeting were of a hold on future policy adjustments, due to the recent economic data, the statement released by the Fed suggests that the Central Bank is ready to assume a more aggressive position on the market. The Committee left a door open for a December lift of the federal funds rate, thus sending a strong signal to boost market implied probabilities of a rate hike. However, it should be noticed that the next FOMC meeting will take place on the 16th of December, after the ECB meeting, when we expect the Governing Council to announce additional easing measures, in the form of an extension of the QE or of a cut in the depository rates. ECB policy might be interpreted as supporting global growth and, thus, facilitating a lift-off for the Fed. However, ECB's move could weaken euro and thus boost the dollar, leading the way to further tightening of financial conditions in the US, forcing the Fed to delay the first rate hike. As far as the major macroeconomic data, we can observe a slightly negative inflation (CPI lowered by 0.15% in September) and a 1.5% growth in Real GDP. However, Atlanta Fed's GDP new forecast is now at 0.9 percent, symptom of further downside risks to already weak expectations. The Industrial Production Index recorded a negative growth of 0.2%. Unemployment rate is stable at 5.1%.

Europe

October has been characterized by signals of further QE by the ECB after the 22nd of October, projected to take place in the next meeting of December 3rd, as recent data regarding third quarter inflation failed to meet the target of "below 2%" year on year since the first purchase of over 60 billion euros of assets on a monthly basis in the beginning of 2015. The effect of such strategy was an instantaneous euro slip to below 1.1USD , the slump of German and even peripheral countries (Spain and Italy) yields into negative territory. The ECB seems to be irrevocably determined to meet its inflation goal. As such, it has revised the monetary instruments to pursue its monetary milestone, including a possible decrease in the deposit rate. Nonetheless, the reactions to the announcement were tamed by the uncertainty prevailing in the financial markets regarding the US monetary policy (the overwhelming debate about the if and when interest rates will finally hike). The reduction in borrowing costs is likely to prop up equity prices, as yields become less attractive for investors. Future prospects in terms of growth projections are improving, as the yield curve exhibits a positive trend and growth consensus is spotted at around 1.9% for 2016..

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Asia

Chinese framework is dominated by two elements: on the one hand the slowing growth rates; the labor market, on the other. It is generally agreed that Chinese economy has slowed more that the official 6.9 percent suggested by third quarter GDP report. The consumer price index remains low and producer prices are in deflationary territory. That means higher real interest rates and reducing the incentives to borrow. This situation forced the POBC to cut interest rates as well as reserve requirements, with the intent of putting a floor under sliding growth, as well as to offset capital outflows. Expectation of a Yuan drop have trigged an exodus of funds, with the banking system shedding 760 billion Yuan of foreign exchange in September. As far as the labor market, data show that, despite slowing growth, unemployment remains low. That reflecting shifting demographics rather growing demand for workers. The working-age population is shrinking and the older cohort exiting the workforce had the highest unemployed rate. This forced the Chinese Government to raise to two the number of children allowed per family.

The Bank of Japan kept monetary policy unchanged in the last meeting (Oct. 30), voting to continue expanding the monetary base. At this stage, the BoJ may be less concerned about timeframe and more concerned about whether prices are heading in the right direction. This suggests policy may be biased toward no change or, alternatively, that it will be driven more by events than the calendar-based targets, making more difficult to predict.

Emerging Markets

Uncertainty regarding the right timing of the US policy action is of no good for Emerging Markets. A US interest rate hike will foster capital flights, pressuring currencies to depreciate as a consequence. The primary risk of such strategy is well known as the “original sin”, as such economies issue dollar denominated debt, spurring currency risk as a consequence. However, the huge foreign reserve building up in past years might be sufficient enough to tame the negative outcome of a possible currency depreciating pressures.

India has been the Emerging Markets’ champion, where growth has been sustainable (likely to surpass the decelerating China this year) and stocks benefited from an unanticipated central bank rate cut of 50 basis points.

Brazil and Russia are the two EM mostly at risk, as the recent downgrade to Brazil Sovereign debt to junk, after the last primary deficit announcement of 0.5% of GDP confirmed the fiscal inconsistence prevailing in this country. We are likely to observe capital outflows after such event due to requirements from pension funds to only keep high investment grade assets. The Russian exposure to the Syrian conflict increased volatility in energy prices, and the situation in Ukraine is still influencing bond spreads.

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2. Fixed Income, FX and Commodities

Monetary Policies and Currencies´Skirmishes

I will take a long position on the US dollar versus the Yen (USDJPY:CUR) due the continuation of BoJ's QE program and its projection of a continued growth of the Japanese economy above its potential from 2015 through 2016, supported by liquidity fostering. This choice is also backed by the recent increase on US bonds yields, held by the improved outlook of the US labor market and the constant signaling of a rate hike in December by the FED.

I will go long on the US dollar versus the Lira (USDTRY:CUR) due to Mr. Recep Tayyip Erdogan recent unexpected presidential victory, reflecting a positive short-term market reaction as political uncertainty ended, thus assuring Turkey´s short/medium term stability. Due to Mr. Erdogan conservative politics and its strong opposition to interest rate hikes, capital increase was quickly reflected causing Lira to devalue. However, taking into account CBRT's (Central Bank of the Republic of Turkey) last week statements concerning the possible need for higher interest rates due to higher inflation forecasts, it is important to consider that the weight attributed to this position must be closely controlled due to the risk of Turkish monetary contraction policy.

I will go long on Australia 5 Year Government Bond (AU000XCLWAN8) even though the recent decision of the Reserve Bank of Australia was of not cutting interest rates. This is due to a possible lower interest rate scenario following the continuation of commodity prices falling and lower inflation.

Considering the continued effort from the ECB to increase liquidity in the market through the QE expansion, it is to expect that the euro keeps its depreciation pattern. Meanwhile, after the policy makers' statement on the 27th October, analysts significantly jumped their beliefs on the probability of FED raising rates from 35% to 52%, which represents an indicator of a possible boost in demand for USD, causing the currency to appreciate. Therefore, I will go short on the Euro versus the Dollar.

Analyst: Luís Miguel Aguiar
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Trade Summary:
Long 50% USD/JPY
Long 20% USD/TRY
Long 10% AU000XCLWAN8 (AUS 5Y)
Short 20% EUR/US

Asset Class: Currencies, Bond
Region: Europe, US and Asia

High Yields Payoff?

I will go long 65% on Sovereign Euro high yield (HY) bonds - Portugal, Spain and Italy with maturities of 5 years - given the outlook of below-average default rates, a favorable growth backdrop and quantitative easing over the next six months.

A long position of 60% in USD IG corporate bonds with shorter maturities (1-5 years) due to the attractiveness of the yield, and the risks from rising rates are, for now, limited. These bonds (below BBB rating segments) offer better return potential than higher-rated issuers and European IG bonds, allowing for potential gains.

I expect the 10-year Bund Yields to increase over the next six months, given the likelihood of the the US to pursue an rate hike aligned with a steady Eurozone economic activity improvement. Therefore, I will short 25% to exploit the future price decline of these bonds.

I will not open a position in the 10 years US treasury yields, given the degree of volatility this month, reflecting uncertainty over future Fed monetary policy aligned with the poor performance of emerging markets and concerns over global growth.

Analyst: António Damásio
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Trade Summary:

Long 65%	5Y PT0TECOE0029
	5Y ES00000127H7
	5Y IT0005107708
Long 60%	5Y US912828L997
Short 25%	10Y DE0001102382

Asset Class: Currencies, Bond
Region: Europe and US

2. Fixed Income, FX and Commodities

Accommodative monetary policies and the strong dollar

• The US economy continues to strengthen, and if economic data does continue to indicate further growth and firmer prices, a December rate hike would be a "live possibility" (the probability increases from 33% to 50%), according to Janet Yellen, the chair of the FED. even though it dropped a little when the Fed decided to keep short term interest rates unchanged. The strengthening highly contributes to the continuous appreciation of the USD against most currencies. That is why, I took a long position of 15% in the USD/JPY, since the Yen has been falling quickly during the last months over China's volatility. Furthermore, the risk for additional QE by the BoJ has risen the USD/JPY.

•The USD/CAD remains oil dependent. I personally think that the market is taking an exaggerated negative perception on the CAD's performance potential and I suggest an entry in a short position of 10% on the USD/CAD.

•For the very short term and taking into account the decision of the ECB to continue the asset purchase program and the likely rise of interest rates in the US, I will pursue a short position of 30% in the EUR/USD.

•Finally, I have decided to take a short position in the USD/BRL, due to the recent downgrade Brazil`s sovereign debt (entailing severe capital outflows) and suffering from steady currency devaluations of the emerging markets (low commodities prices, especially oil in the case of Brazil).

As far as the very short run is concerned, oil prices should stay weak, since there is a big surplus in the market. For the medium-run we are likely to observe a mixed feeling, as slowing Chinese demand has counterbalanced the first signs of lower crude oil production in the US and in other parts of the world. I expect oil supply adjustments to become more evident and Asia demand for oil to increase in the next months. All things taken into account, predictions for the Brent crude have set the price target of 60USD/bbl in the next six months. Despite the current 40-50% volatility in this market, I think there is some room for profiting from trading in oil, so I have decided to go long 20% on oil futures.

Analyst: João Ramos
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Trade Summary:
Long 15% USD/JPY
Short 10% USD/CAD
Short 30% EUR/USD
Short 25% USD/BRL
Long 20% CL1 Oil futures

Asset Class: Currencies, Commodities
Region: US, Europe and LatAm

3. Equities

Diversification and Unloved Stocks

Opinions over the US manufacturing sector are highly positive at the moment. It is predicted that new orders and production current growth rates are set to increase, specially in printing, textiles, furniture and food products. An increase in raw material inventories was seen in October, anticipating a strong festive season ahead with higher sales and earnings. Recent data shows that this sector is on track to end the year growing 3%, leading my long position on this ETF.

After the oil price slump and the oil spill in the Gulf of Mexico and, BP has suffered a lot during recent times. Nevertheless, the most out of the USD 18.7bn fine BP is obliged to pay due to the oil spill is almost on its totality tax deductible and BP has beaten 3rd Quarter earnings estimates of USD 1.26 billion, posting USD 1.82 billion in profit. Also, current debt-to-equity ratio (0.54) is low and below industry average, and an adequate quick ratio of 1.00 illustrates the ability to avoid short-term cash problems. Price to projected earnings stands at 14.55 versus 115.93 of its peers and Price to Book ratio currently is at 1.03 versus 8.79 industry average. Thus, I suggest going long on it as it is a cheap investment alternative within the industry.

Benefiting from a strong balance sheet and profitable products, GSK is perfectly positioned inside a potential drug industry consolidation. Divesting its non-profitable oncology business, GSK has bought Novartis' vaccines business, also creating a Consumer Health Care joint venture (demand in emerging regions is highly growing due to its increasing population and GSK is exposed to these markets). One should also recall that vaccine sales rose 32% worldwide during last quarter. Right now, GSK is trading at 16 times its expected 2016 earnings, which is significantly cheaper than the the industry average (25) Also, strong investments in growth areas like HIV are a focus of the company, justifying my long position on it.

Analyst: Francisco Franco Nunes
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Trade Summary:
Long 50% DIA US Equity (SPDR Dow Jones Industrial Average ETF)
Long 25% BP LN Equity (BP)
Long 25% GSK LN Equity (GSK)

Asset Class: Equities
Region: USA and Europe

Betting on the recovery

Rumors say that a Pfizer may acquire Allergan PLC, an Ireland based company that manufactures specialty pharmaceuticals, famous for producing Botox. As far as Pfizer Inc., it is a research-based pharmaceutical company, which is itself product of mergers. If the proposed deal goes through, the resulting company will be the biggest medical firm, with a market value of more than USD300 billion. Moreover, the transaction, will allow Pfizer to benefit from Ireland taxation system. Thus, I suggest going long on Allergan and, at the same time, short Pfizer Plc.

Mario Draghi has announced that the ECB will continue with its current policy, thus, a second QE or a cut in the depository rate is expected in the next Governing Council meeting. For this reason I suggest to go long on the ETF over the EuroStoxx 50 Index, to benefit from the upcoming maneuver.

Volkswagen may appear as a weak company after September's emission scandal. However, since the company reached the bottom price of EUR95 a stock, it has already gained 35%. Analysts offer an average target price of 132.5, thus I think it is worth to invest part of the portfolio in the stock.

With the news of an increase in both traffic and load factor, Ryanair represents a good investment opportunity. Moreover, both the EBITDA margin and yield per passenger at the top among its peers make Ryanair even more attractive. Thus, I decided to include it in my portfolio, with the expectation of further growth.

Analyst: Roberto Tedesco
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Trade Summary:
Long 30% AGN US Equity
Short 30% PFE US Equity
Long 20% VOW GR Equity
Long 50% SX5EEX GY Equity (iShares EuroStoxx50 ETF)
Long 30% RYA ID Equity

Asset Class: Equities
Region: Europe and US

Industrial Conquests

With the recent jetliner final assembly line in Alabama, Airbus is expected to experience both a reduction in labour costs and significant increase in its orders, increasing its market share in the US up to 40% (against the current 20%). This factor, along with the recent release of Airbus' Q3 earnings that exceeded expectations of investors (causing its stock price to increase by about 5% on the day of the announcement), encourage the idea of meaningful growth thus supporting my long 30% position on the company.

Taking into account the conjecture on the German automobile sector - shaped by a credibility loss due to the Volkswagen case - it is likely that the US imports in this sector (that accounts for 3,9% of total imports) will focus on alternative suppliers. Manufacturers from emergent markets benefit from lower costs due to local currency devaluations, in particular, Japanese producers (due to a loose monetary policy of the BoJ). Therefore, I will go long by 30% on CARZ:US, an ETF that follows large automobile manufacturing companies' that is mainly dominated by companies from emergent markets. On the other hand, doing the opposite rationale, I will go Short by 20% on iShares STOXX Europe 600 Automobiles & Parts ETF since it is to be expected that with the German automobile credibility at stake, European manufacturers will be directly harmed.

Visa Inc. is expected to acquire its subsidiary Visa Europe. With this deal the company will not only strengthen its position against MasterCard in the European market, but is also expected to increase its earnings by 5% while impacting its 2018 profit by 12%. Moreover, Visa's Q3 earnings were higher than what analysts predicted (by about 26%), suggest that this company is on a good path to growth, hence my 30% long position.

Vodafone is expected to conduct an IPO on its Indian business. This is a meaningful opportunity to intensify its position in a country characterized by a population of 1.2 billion. Is to expect that the buzz created around this deal will stimulates the company's stocks. Therefore, I will go long by 30% on Vodafone.

Analyst: Ana Lambiza Pardal
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Trade Summary:
Long 30% AIR:FP
Long 30% CARZ:US
Short 20% EXV5:TH ETF
Long 30% V:US
Long 30% VOD:LN

Asset Class: Equities
Region: US and Europe

November Article

Il Cavallino Rampante

A popular Italian saying says that God had to invent dreams because of Italian ice cream and cars. I am not particularly fond of ice cream but since last month I no longer have to dream of having a Ferrari since I can be the owner of a couple Ferrari's shares for a reasonable amount of approx. USD 51 (NYSE:RACE).

Ferrari went public last month following a well-defined strategy by Fiat-Chrysler's CEO, Sergio Marchionne, to raise funds for its EUR 48bn R&D program at Fiat-Chrysler. This program included the sale of a 10% stake in Ferrari that would value it between USD 9.6bn and USD 10.4bn. The results of the IPO came out on within the range with a share price of USD 52 (USD 9.8bn) which corresponds to an Net Income to EV multiple of 40, more in line with values of luxury brands than automotive companies.

The roadshow made for Ferrari was supported by two selling points that differentiate it from every other car company. The first one is the exclusivity of the cars sold that directly relates to the prices charged, the stickiness of sales, and indirectly to the operating margins (18%, well above market average but still below most luxury fashion companies). The second is the brand value itself and how it can be explored even more in the future - with theme parks, merchandising products or range expansion, for example.

These characteristics are allied with a perspective to increase sales from the current 7000 units per year to a whopping 9000 units in 2019 (30% increase), whilst at the same time maintaining current margins. These inputs made Mr Marchionne and the investors believe that Ferrari would be worth 14 times the current EBITDA of EUR 693M.

As an irrational agent and a feverous car enthusiast I have to say I find the price of Ferrari within all reasonable standards, even more if you consider you will actually own a "Ferrari". However through some quantitative and qualitative valuation one can see the value is a bit far off.

First of all it will be difficult to increase sales volume without compromising existing margins and current demand. After all, Ferrari's exclusivity is based on its long waiting list and limited production. Given such, one might wonder if without the ultra-exclusivity the top 1% will remain interested in buying one of these cars at the current prices. The second problem comes from the lack of investment both in the Scuderia and in the road cars if Mr. Machionne decides not to reinvest the proceeds of this deal in Ferrari - as it was announced. Besides looking good, a Ferrari has to perform well and win titles in order to compete with a much bigger Mercedes-Daimler and if it the cars don't run well and don't win titles sales will be affected. Thirdly there is a concern about the health and duration of the contracts with Maserati to produce their V8/V6 engines. This is an important topic seeing that these contracts will represent almost 5% of Ferrari's revenues by 2020 and unlike Ferrari, Maserati is more exposed to cyclical conditions.

When putting these values all together there is a consensus that the true value of Ferrari should lie anywhere between EUR 6.2 and 7.6 bn. This value represent a EV/EBITDA multiple between 9 and 11 which is still much higher than the average for the automotive industry (approx. 7) and it is one that I think reflects both the exclusivity of the company and the challenges it will face in the next few years including the slowdown in its "growth markets" such as China or the Middle East that represent almost 17% of total sales volume.

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