# Newsletter

December 2015


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nic Nova Investment Club

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## Investment Banking Report



## The NIC Fund

# Investment Banking Report

December

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Nova Investment Club

www.novainvestmentclub.com

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## 1. Macro Overview

As in any other month this year, the crisis in the world shook the month of November. The wider economic ramifications of the threats from IS are under consideration although the markets seem strong enough to persist the terrorist attacks. While the downturn in travel and tourism stocks is common and typically transitory, long run impacts might emerge through the policy channel and the effect of fearful consumers. Considering the fragility of both European economies and the institutions underpinning the European Union, challenging consequences could tighten borders and increase surveillance attempts as well as an exacerbating geopolitical conflict in Syria.

Priming for a possible rates rise by the Fed in December dominated markets in November. Janet Yellen, chairwoman of the Fed, sees the US economy recovered substantially from the great recession. With a sturdy US job market in favor, future markets put a 75 per cent probability on quarter-point upward move in December.

For emerging markets, the forthcoming Fed tightening and the US Dollar strength, clearly provides more pressure, regarding the depressed commodity prices and weak global demand.

In the Euro area the ECB moves in a different direction in its attempt to boost inflation and growth. The ECB announced to continue the quantitative easing of EUR 60bn-a-month bond buying program until march 2017 and cut its deposit facility rate to a historical low of minus 0.3 per cent. These measures fall short of the market expectations causing the euro to surge temporarily after a persistent depreciation in November while Eurozone's government bonds and equity prices tumbled. ECB's president Mario Draghi defends his position claiming no specific limit for the size of deploying the central bank instruments in the future to ensure price stability leaving some space for more stimulus if needed.

A factor of uncertainty for global economy remains the continuing instability in the oil market since the OPEC failed for the first time in many years to specify a production ceiling on its December 4th council.

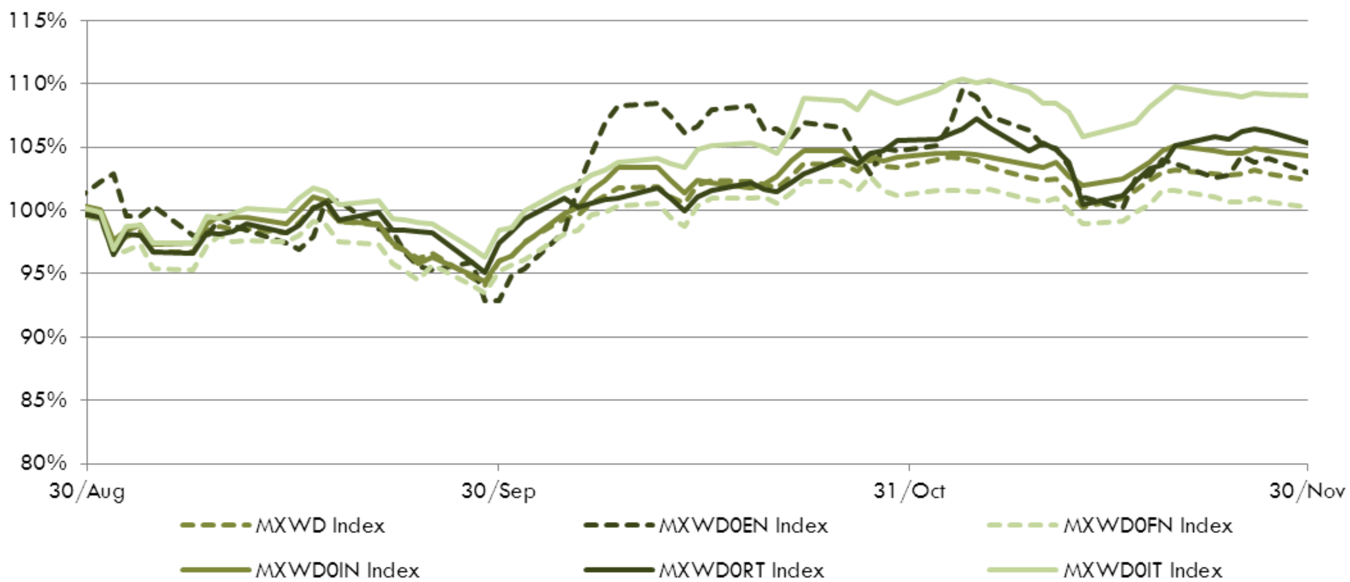
Regarding the equities market, November was a weak month with the FTSE World Index losing 0.6% in the US, the long bull market and high corporate margins which have little room to grow as well as rising pressure to raise wages with a falling unemployment rate are bringing US stocks under debate. The S&P 500 grew by 0.3%, however the continued strong GDP growth, with 2.1 percent reported in the third quarter of 2015 allows for high future expectations. On the other hand, the Eurofirst 300 climbed by 2.2% in November. The strong performance of the European market, a strong US Dollar, which strikes after March the highest marks in November since 2003, and ongoing policy stimulus from the central banks leave space for European stocks to rise.

## Countries' Economic Data

| Country | November Inflation (%) | | Exchange Rate | | Unemployment Rate (%) | | 10 Year Yield | |
|---|---|---|---|---|---|---|---|---|
| | MoM | YoY | USD | Monthly Change (%) | | | Current (%) | Montlhy Change (bp) |
| United States | 0.2 | 0.2 | 1 | - | 5.17 | Q4 | 2.150 | 1 |
| Eurozone | 0.1 | 0.1 | 1.0616 | -3.54 | 10.83 | Q4 | 0.468 | -5 |
| Portugal | 0.1 | 0.63 | 1.0616 | -3.54 | 11.90 | Q3 | 2.266 | -27 |
| Japan | -0.1 | 0.3 | 0.008136 | -1.87 | 3.37 | Q4 | 0.299 | -1 |
| Greece | -0.1 | -0.917 | 1.0616 | -3.54 | 25.03 | Q3 | 7.663 | -22 |
| Russia | 0.7 | 15.6 | 0.01503 | -3.72 | 5.27 | Q4 | n/a | n/a |
| China | -0.3 | 1.3 | 0.15626 | -1.31 | 4.05 | Q3 | 3.090 | n/a |
| Brazil | 0.82 | 9.93 | 0.2597 | 0.15 | 7.57 | Q4 | n/a | n/a |

- In the above table only moderate changes on 10 Year Yields are observed for the United States, Japan and the Eurozone. However, notable changes are exhibited for Portugal and Greece with a decrease of 27bp and 22bp respectively. Both countries are facing political issues with regards to managing their debt. The recent election in Portugal has created political uncertainty due to the lack of a clear majority and opposing views from rival coalition parties.
- A major move happening in exchange rates is the depreciation of the Russian Ruble (-3.72%) against the USD. The decrease in crude oil prices is having a large impact on the Russian currency as it is one of the country's main exports. Also the Euro has depreciated against the USD mainly because of the strengthening US economy.
- The United States had a modest inflation rise of 0.2% during November. Compared to previous two months of deflation this November result can be a signal which could support the upcoming decision of the Federal Reserve to increase interest rates.

## Sectors' Overview




- After an upward trend during October, sector indexes exhibit sideways movement during the month of November. The Information Technology Index (MXWD0IN) outperformed all other indexes on the basis of strong earnings reports from constituents and several large M&A deals.
- The Retail Index (MXWD0RT) had a dip near the beginning of November because of disappointing earnings reports from several major department stores. However, the index recovered by the end of the month as positive results were announced from other retailers leaving a mixed outlook on this sector. The Energy Index (MXWD0EN) decreased during November amid OPEC (Organization of the Petroleum Exporting Countries) meetings and falling crude oil prices.

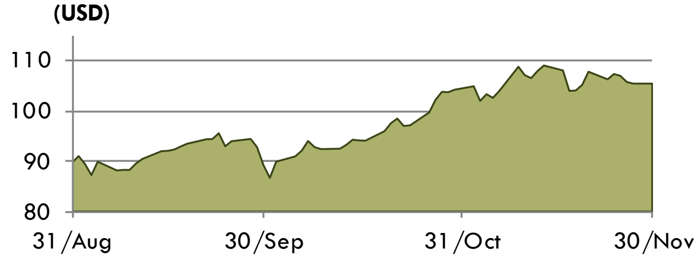

Source: Bloomberg (as of 30.11.2015)

## 2. Followed Companies

### Facebook Inc.

(Ticker: FB US Equity)
Industry: Media

- Facebook's third quarter results reported USD 4.5 bn in revenue beating analysts' expectations of USD 4.37 bn, up 41% YoY. One of the surprises was the 68% increase in expenses YoY, related to the increase in investment that had been previously announced.
- Facebook announced that video views increased from 4 bn to 8 bn per day. These numbers are correlated with the 17% YoY increase in daily active users from 894 million to 1.01 bn.
- A key factor to take into account is that most of Facebook's revenue comes from North America and Europe, with only about 25% (USD 1.1 bn) coming from Asia-Pacific and the rest of the world. But those areas account for 65% of its monthly active users.

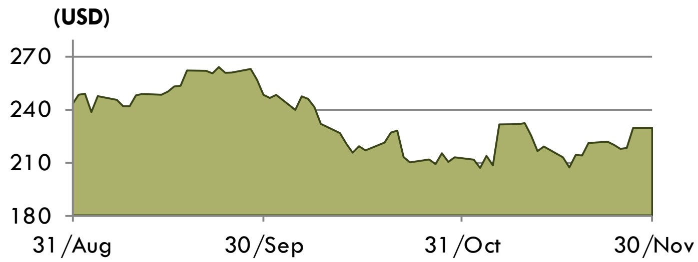



| | | |
|---|---|---|
| Price (USD): | ↑ | 104,24 |
| Target Price (USD): | | 125,00 |
| Up/downside: | | 19,9% |
| Performance 3M: | | 16,6% |
| P/E Ratio: | | 105,4x |
| ROC/WACC: | | 0,8x |

### Tesla Motors Inc.

(Ticker: TSLA US Equity)
Industry: Automotive

- Tesla reported an adjusted loss per share of USD 0.58 against expectations for a USD 0.56 loss. The capital intensive development program that is currently underway is said to compromised the results for this and the next quarter.
- Revenue was USD 1.24 bn, inline with analysts estimates for this quarter. Vehicle deliveries followed the same trend with end of the year estimated to be between 50,000 and 52,000. Sales of the Model S are said to substantially increase the total sales in China.
- Tesla's is expected to invest USD 500 m in the fourth quarter, bringing this year's capital expenses to USD 1.7 bn. The company cited accelerating investments in its Gigafactory for the increased capital investments.

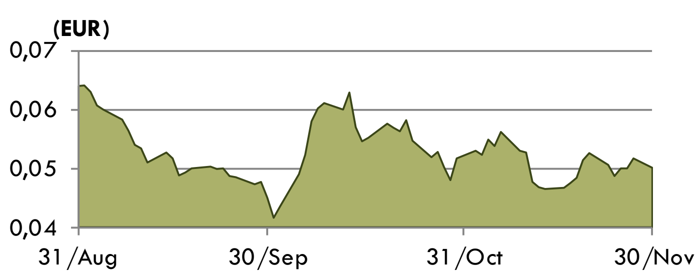



| | | |
|---|---|---|
| Price (USD): | ↑ | 230,26 |
| Target Price (USD): | | 291,00 |
| Up/downside: | | 26,4% |
| Performance 3M: | | -7,5% |
| P/E Ratio: | | n/a |
| ROC/WACC: | | -1,5x |

### BCP S.A.

(Ticker: BCP PL Equity)
Industry: Banking

- BCP reported a profit of EUR 264.5 m which represents a significant YoY increase from a net loss of EUR 109.5 m registered in the year before.
- Total profit benefited from a 49% increase in the profits of Millennium Angola, which will merge with BPA.
- The bank also plans to keep cutting jobs within the Portuguese structure to keep up with new challenges and regulatory constraints, that is also why there was particular focus to improve Tier 1 ratio to a value of 13.2% in this quarter.




| | | |
|---|---|---|
| Price (EUR): | ↑ | 0,05 |
| Target Price (EUR): | | 0,08 |
| Up/downside: | | 58,1% |
| Performance 3M: | | -19,7% |
| P/E Ratio: | | 20,9x |
| ROC/WACC: | | 1,5x |

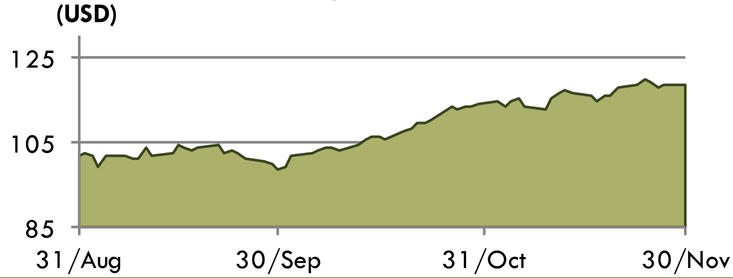


Source: Bloomberg (as of 30.11.2015)

## 2. Followed Companies

### Walt Disney Co.
(Ticker: DIS US Equity)
Industry: Media

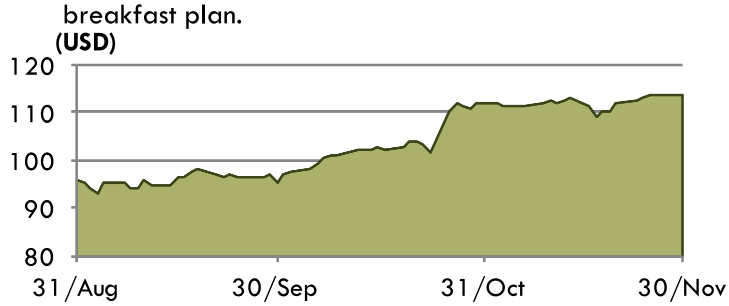
- Disney's USD 4.0 bn purchase of the Star Wars franchise in 2012 is quickly translating into millions of dollars in added value in advanced ticket and toy sales with the impending release of its new film, "Star Wars: The Force Awakens", in mid-December.
- It is attempting to widen its target consumer to include female buyers for Star Wars toys by centralizing its marketing efforts around Rey's character, a brave heroine. Investor optimism is clearly reflected in Disney's increasing stock price, with a 3M performance of 11.4%.
- Fourth quarter results showcased an unsurprising series of record-breaking figures. Revenues for the year marked a 7% increase, leading to an all-time high of USD 52.5 bn. Net income also increased to an unprecedented USD 8.4 bn and EPS to a milestone figure of USD 4.90.




| | | |
|---|---|---|
| Price (USD): | ↑ | 113,47 |
| Target Price (USD): | | 120,00 |
| Up/downside: | | 5,8% |
| Performance 3M: | | 11,4% |
| P/E Ratio: | | 22,1x |
| ROC/WACC: | | 1,3x |

### McDonald´s Corp.
(Ticker: MCD US Equity)
Industry: Restaurants

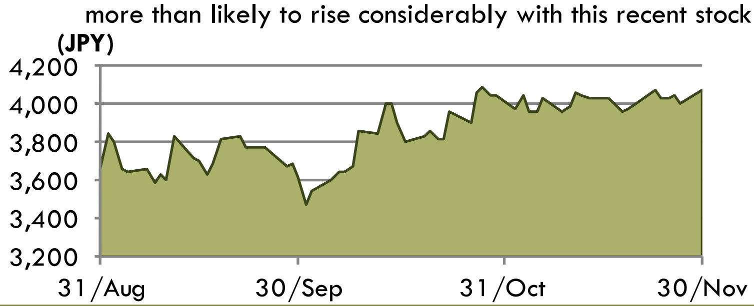
- Around early October, McDonald's announced its all-day breakfast alternative. This combined with its overall shift to focusing on the quality of its products has lead the fast-food company to exceed Wall Street expectations for its third quarter profit and revenue figures.
- McDonald's stock has been predominantly pushing upward ever since, with an increase in share price from USD 101.74 in Oct.21 to USD 110.01 in the following day (growth of 8.1%). It has been able to sustain and slightly increase this price throughout November.
- Its third quarter results pointed out that the 0.9% increase in sales, which was the company's first quarterly sales increase in 2 years, was partly due to the introduction of this new breakfast plan.




| | | |
|---|---|---|
| Price (USD): | ↑ | 114,16 |
| Target Price (USD): | | 121,50 |
| Up/downside: | | 6,4% |
| Performance 3M: | | 21,1% |
| P/E Ratio: | | 23,7x |
| ROC/WACC: | | 2,8x |

### Honda Motor Co.
(Ticker: 7267 JP Equity)
Industry: Automotive

- Honda has recently tackled one of Japan's main concerns of a rapidly aging workforce by increasing the retirement age from 60 to 65 years and by establishing a more flexible work policy. It has also proposed to increase the share of women in the workforce by introducing a partial workday system to faciliate maternity leave needs. Recently, this proactive approach has lead to sharp rise in stock price as the company entered the month of December.
- From JPY 4,002.00 on Nov. 31st to JPY 4,104.00 on Dec. 1st , Honda's shares listed in the TSE are already reacting to its newly announced plans.
- Overall over the 3M period, Honda has faced a positive return of 5.3% and this figure is more than likely to rise considerably with this recent stock jump.




| | | |
|---|---|---|
| Price (JPY): | → | 4.002,00 |
| Target Price (JPY): | | 4.100,00 |
| Up/downside: | | 2,4% |
| Performance 3M: | | 5,3% |
| P/E Ratio: | | 14,2x |
| ROC/WACC: | | 0,8x |

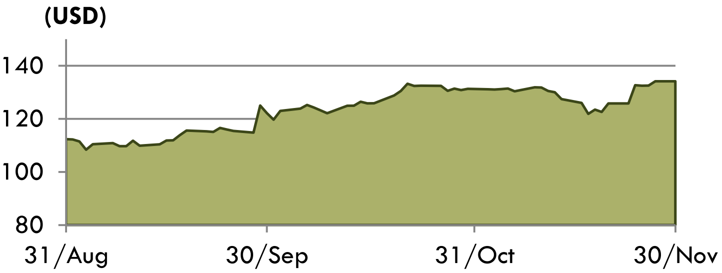


Source: Bloomberg (as of 30.11.2015)

## 2. Followed Companies

### NIKE INC
(Ticker: NKE US Equity)
Industry: Textile

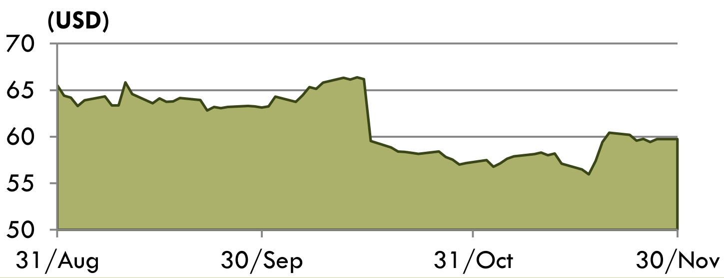
- Nike is the world's leading designer, marketer and distributor of sports' equipment, accessories and clothes, having a ROIC of 28% in the fiscal year of 2015, they are now placed in the top 10% of the S&P 500.
- In October 14, NIKE announced to goal of USD 50bn in revenues by the end of 2020, with USD 6.5bn being achieved in NIKE's emerging markets. They also expect an increase from USD 1bn to USD 7bn in digital sales until 2020.
- Mark Parker, Nike's CEO, was considered the Business person of the year by Fortune.




| | |
|---|---|
| Price (USD): | 132,28 |
| Target Price (USD): | 140,00 |
| Up/downside: | 5,8% |
| Performance 3M: | 18,7% |
| P/E Ratio: | 33,6x |
| ROC/WACC: | 2,4x |

### Wal-Mart Stores Inc
(Ticker: WMT US Equity)
Industry: Retail

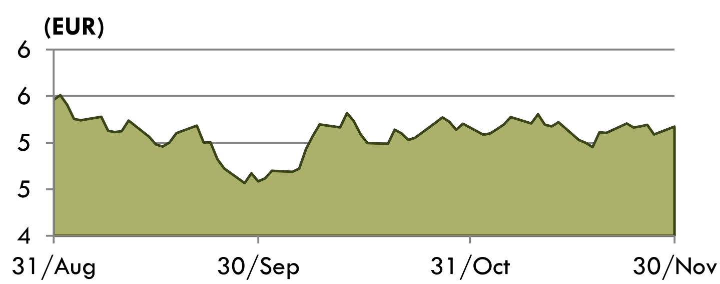
- Walmart's net sales decreased 1.3% for the three months ended in October 31 when compared to the same period in the previous fiscal year. Net sales were negatively impacted by USD 4bn of fluctuations in exchange rates and USD 515m decrease in fuel sales due to lower fuel prices.
- ROI decreased from 16.4% TTM in 2014 to 15.9% TTM in 2015. This decreased was mainly due to the decrease in operating income and continued capital investments. The operating income decreased from USD 26.545 in 2014 to USD 25.412 for the TTM ending in October 31.




| | |
|---|---|
| Price (USD): | 58,35 |
| Target Price (USD): | 63,00 |
| Up/downside: | 8,0% |
| Performance 3M: | -9,1% |
| P/E Ratio: | 12,4x |
| ROC/WACC: | 1,9x |

### Banco Santander SA
(Ticker: SAN SM Equity)
Industry: Banking

- Santander Shares tumbled in Madrid last month due to the failure of Abengoa (the Spanish renewable-energy company) in paying its loans. Santander has the largest exposure.
- Last quarter, net interest income dropped 2.2% compared to the previous quarter. Consumers loan fell 0.8%.
- The stock also drop 26%, making it the second-worst performer among companies tracked by the STOXX 600 Bank Index.
- Earnings in Spain increased 23% and the net income in the U.K. rose 18% in the third quarter compared to the last year.




| | |
|---|---|
| Price (EUR): | 5,17 |
| Target Price (EUR): | 5,80 |
| Up/downside: | 12,2% |
| Performance 3M: | -4,4% |
| P/E Ratio: | 11,0x |
| ROC/WACC: | 1,6x |



Source: Bloomberg (as of 30.11.2015)

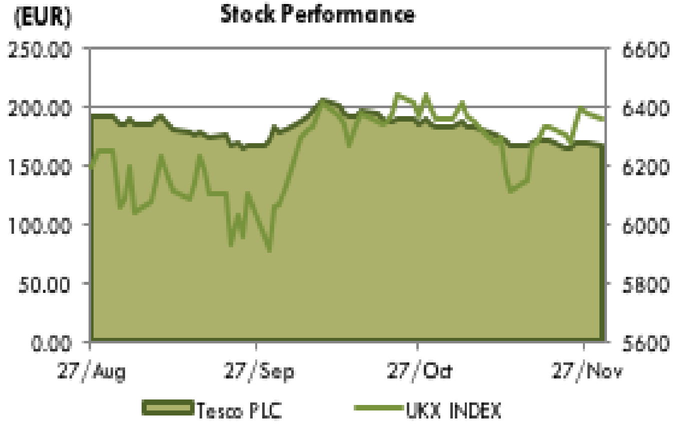
# 3. Detailed Review - Tesco

## Company Overview

- Tesco has experienced a negative year with its share price falling 13.97% from GBP 189.60 to GBP 162.60. Revenues amounted to GPB 62bn, while recording negative earnings of GBP 5.8bn. It is the supermarket with the largest market share in the UK (28.1%), a 10-year low for Tesco, the second largest is Asda with 16.6% market share.
- Tesco (TSCO) is UK's largest supermarket group and one of the world's largest retailers employing over 480 000 people in more than 11 countries. Clients shop more than 80 million times a week in Tesco Stores. The firm is present worldwide including countries, such as, India, Malaysia, Czech Republic, Poland, Ireland and Slovakia. Tesco also has a bank with a customer base of 7 million, which sell a range of simple financial products, such as, mortgages, loans, and credit cards.
- Regarding the UK, its major revenues source, it fell by 1.8% to GBP 43,572m. The losses incurred obliged the supermarket chain to close 43 stores, which is forecasted to have a negative impact on 2015/16 sales of around 0.4%.
- Tesco has been loosing market share and recording negative financial performance, mainly due to the entrance of German discounters, such as, Aldi and Lidl, which have attained a combined 10% market share in the UK.
- Currently the company is not distributing any dividends, as its earnings are negative. The D/E Ratio is 1.79, meaning that the company is highly leveraged. Their Beta when compared to the UKX Index is 1.5, which is not normal for this industry as supermarkets sell essential goods, so the beta should be lower and not as volatile.
- Tesco's stock performance has been slightly underperforming the FTSE 100 Index for the past three months. The 52-week high percentage change has decreased by 33.8%, which mirrors the low performance of the supermarket chain this year. The return on common equity is -62.3%, meaning that their not getting a return on their shareholder's money.

## Corporate News

- Citigroup updated Tesco's rating to "buy", while downgrading the grocer's rivals, this happened after the supermarket hired the investment bank as its joint corporate broker.
- Recently Tesco was involved in a lawsuit, which alleges that they overstated their profits guidance by USD 250m breaching certain US securities laws. Tesco will have to pay around GBP 8m to settle legal action by US shareholders which claimed that accounting irregularities inflated the supermarket's share price.
- Tesco is being highly damaged by the new wages hike and business rates, which can further hurt the company obliging them to spend an extra GBP 500m until the end of 2020.
- More than 700 of Tesco's distribution staff across 24 distribution centres are balloting for strike action close to Christmas after rejecting the latest pay offer. The strike could majorly affect Tesco's Christmas sales.




| Tesco PLC (GBp) | |
|---|---|
| Current Price (30/11/2015) | 167,20 |
| 52-week high % change | -33,8% |
| Median Target Price | 216,44 |
| Market Capitalisation (mn) | 13 237 |
| Return on Common Equity | -62,3% |
| Dividend Yield | n/a |
| Beta (vs. UKX INDEX) | 1,5x |
| Total Debt/Equity | 179,0% |

 Source: Bloomberg (as of 05.12.2015) 

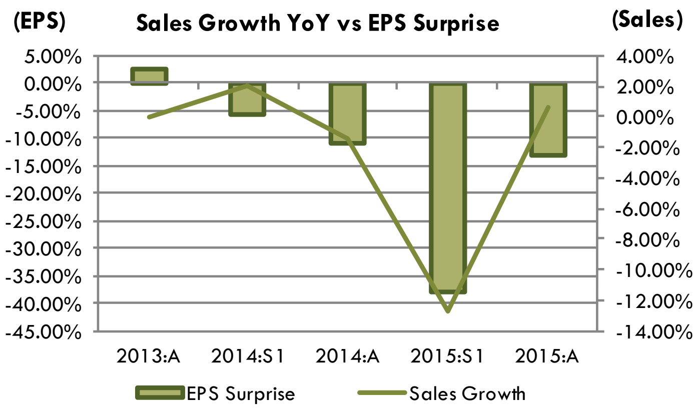
## Comparable Analysis

| Company Name | Country | Currency | Mcap(m) | Enterprise Value(m) | P/E | EV/EBITDA | EV/Sales | P/B |
|---|---|---|---|---|---|---|---|---|
| **Tesco PLC** | GB | GBp | 13 237 | 23 350 | n/a | #N/A N/A | 0,4x | 2,1x |
| J Sainsbury PLC | GB | GBp | 4 713 | 6 251 | 10,7x | 4,6x | 0,3x | 0,8x |
| Carrefour SA | FR | EUR | 20 467 | 28 215 | 21,0x | 7,8x | 0,4x | 2,2x |
| Jeronimo Martins SGPS SA | PT | EUR | 7 986 | 8 404 | 25,3x | 10,5x | 0,6x | 5,3x |
| Distribuidora Internacional de | ES | EUR | #N/A N/A | 4 514 | n/a | 10,8x | 0,6x | n/a |
| Koninklijke Ahold NV | NL | EUR | 16 183 | 17 890 | 19,4x | 6,9x | 0,4x | 3,0x |
| 75th Percentile | | | | | 22,1x | 10,5x | 0,6x | 3,0x |
| **Median** | | | | | **20,2x** | **7,8x** | **0,4x** | **2,2x** |
| 25th Percentile | | | | | 17,2x | 6,9x | 0,4x | 2,1x |

- For the purpose of this analysis, we selected a set of peers, which we believe are the biggest competitors of Tesco in the European market, among them, we selected one of Tesco's biggest competitors in the UK (Sainsbury), and the biggest supermarket chains in Portugal (Jerónimo Martins), France (Carrefour), Spain (Dia) and Netherlands (Koninklijke)
- When looking at the current EV/Sales and P/B of Tesco, the respective values are on the lowest 25$^{th}$ percentile. This suggests that Tesco is undervalued compared with its peers. Even though the group expects to improve its financial performance by 2016, this low values, reflect the poor financial performance of Tesco over 2015 which was affected a lot by the entry of its German competitors into the UK market.
- With regard to Tesco's EBITDA, we can observe that the company has reported a negative value, for FY 2015 of GBD 4.2 m, as well as negative earnings for this period of GBP 5.8 m. This values are very below compared with the ones observed by its peers in the same year, which observe high P/E ratio, of around 20.2 and a median  7.8 EV/EBITDA ration

## Earnings Analysis

- While the performance of Tesco continued operations remains frightfully poor and dividends non-existence. Tesco's shares are more than 35% below their April high, and down 13% on the year.
- Lower than expected EPS, in the first half of 2015, were seen as a big surprise to shareholders, which due to Tesco's announcements, expected less losses, then the actual GBP 1,080 m observed, leading to 12.9% fall in the value of shareholder's equity. Even though the group made GBP 3.6 b in its South Korea unit, discounting operations are still costing Tesco large sums.
- Although Tesco is trying to convince the market that its turnaround is starting to take shape throughout 2015, and will start presenting results soon, there is still not much evidence to back up this claim, and the market is not responding to this expectations, as shareholders still expect a low financial performance.




| | Change in price after | |
|---|---|---|
| Quarter | 2 Days | 1 Week |
| 2013:A | -5,04% | -2,87% |
| 2014:S1 | 1,64% | 0,39% |
| 2014:A | 1,19% | -100,00% |
| 2015:S1 | -7,79% | -5,27% |
| 2015:A | -4,03% | -6,26% |



Source: Bloomberg (as of 30.11.2015)

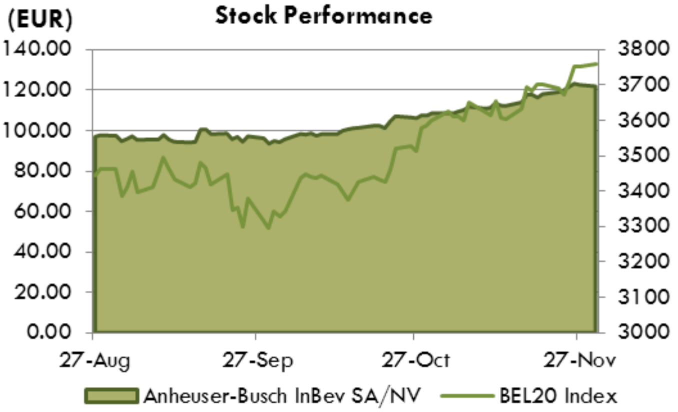
# 3. Detailed Review – Anheuser-Busch InBev

## Company Overview

- Anheuser-Busch InBev is a multinational beverage and brewing company headquartered in Leuven, Belgium. The company is the result of successive mergers between three international brewing groups: the American Anheuser-Busch, the Belgian Interbrew and the Brazilian AmBev.
- AB InBev produces beer and soft drinks. However, it is in the production of beer that the group has its strongest position, being the market leader in countries like the United States of America, Canada, Mexico, Brazil, Argentina, Belgium and South Korea. Regarding market share, the company has a market share higher than 40% in 7 of its 10 top markets, which confirms its leading position in the sector.
- Through its 155,000 employees and its portfolio of over than 200 beer brands, AB InBev continues to forge strong connections with consumers in more than 100 countries worldwide. By looking at its portfolio, one can identify some very prestigious, famous and well-established brands like Budweiser, Corona and Stella Artois.
- The company is publicly traded in Brussels (BEL20 : ABI) and has a secondary listing in the New York Stock Exchange (NYSE : Bud). Besides the millions of social media fans, AB InBev is one of the world's top five consumer products companies and owns 6 of BrandZ top 10 most valuable beer brands.
- According to the 2014 annual report, revenue increased 8.95% to USD 47.1 bn, EBITDA was USD 18.5 bn, Earnings per Share (EPS) increased from USD 4.91 to USD 5.43 and dividends per share already increased 228% when compared to 2010, being equal to USD 3.52 in 2014. Finally, the market capitalization of the company was USD 183.2 bn at the end of last year.
- In November 2015, Anheuser-Busch InBev announced the acquisition of SABMiller (second largest brewer in the world) for USD 106 bn, controlling the new company half of the industry's profit. This deal is set to be the third biggest M&A deal ever.

## Corporate News

- The deal between AB InBev and SABMiller is still waiting for the regulatory approval and both parties are already taking actions to accelerate the process. SABMiller sold its 58% stake of MillerCoors for USD 12 bn to Molson Coors Brewing Co. On the other hand, Budweiser (one of the biggest brands that belongs to AB InBev) announced that it plans to cut annual costs by USD 1.4 bn.
- Ab InBev obtained USD 75 bn of loans to back its acquisition of SABMiller Plc, in what is considered the biggest corporate loan on record, according to Bloomberg. There are 21 banks backing the biggest merger in the sector in history and they are set to split almost USD 500 mm in fees.
- AB InBev's shares show an upward trend in their price over the last 3 months. The same trend can also be directly observed in the BEL20 index.




| Anheuser-Busch InBev SA/NV (EUR) | |
|---|---|
| Current Price (30/11/2015) | 121.95 |
| 52-week high % change | -1.8% |
| Median Target Price | 117.11 |
| Market Capitalisation (mn) | 195,160 |
| Return on Common Equity | 19.3% |
| Dividend Yield | 3.0% |
| Beta (vs. BEL20 Index) | 1.2x |
| Total Debt/Equity | 94.2% |

Source: Bloomberg (as of 30.11.2015)

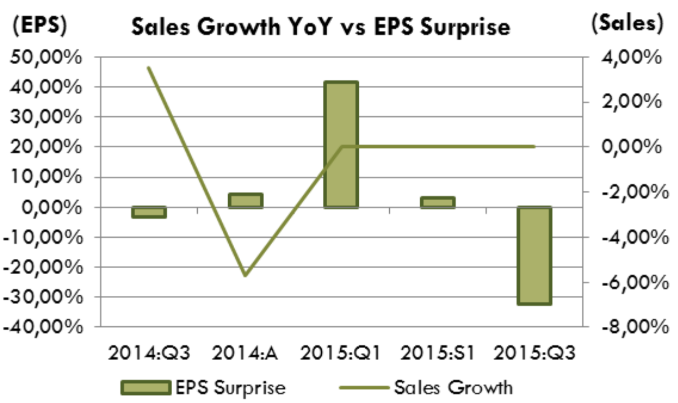
## Comparable Analysis

| Company Name | Country | Currency | Mcap (m) | Enterprise Value (m) | P/E | EV/EBITDA | EV/Sales | P/B |
|---|---|---|---|---|---|---|---|---|
| **Anheuser-Busch InBev SA/NV** | BE | EUR | 189 049 | 253 860 | 21,7x | 13,4x | 5,3x | 4,3x |
| Heineken NV | NL | EUR | 47 232 | 58 844 | 23,2x | 10,8x | 2,6x | 3,5x |
| SABMiller PLC | GB | GBp | 65 637 | 111 314 | 33,1x | 20,7x | 6,7x | 4,5x |
| Carlsberg A/S | DK | DKK | 92 283 | 130 557 | n/a | 30,2x | 1,8x | 2,0x |
| Diageo PLC | GB | GBp | 47 767 | 58 572 | 20,0x | 19,2x | 5,7x | 6,7x |
| Pernod Ricard SA | FR | EUR | 28 029 | 37 142 | 32,3x | 20,3x | 4,3x | 2,1x |
| 75th Percentile | | | | | 32,3x | 20,6x | 5,6x | 4,5x |
| **Median** | | | | | **23,2x** | **19,7x** | **4,8x** | **3,9x** |
| 25th Percentile | | | | | 21,7x | 14,9x | 3,0x | 2,5x |

- This table illustrates clearly that AB InBev owns the highest market capitalization and enterprise value among all other beverage competitors. We can see that P/E and EV/EBITDA from AB InBev places in the 25$^{th}$ Percentile which suggests that the company is undervalued compared to its peers. However, there was a 9,6% of growth in EBITDA driven by the strong top line result and a good cost of sales performance compared to the corresponding quarter of the previous year.
- According to EV/Sales and P/B multiples, AB InBev ranks slightly above the media percentile which means the company is correctly valued in relation to the market sector. AB Inbev last financial report from the last quarter showed a powerful operational skills in revenues and an increase of stock price which allow to consolidate in all markets where the company operates. Since the company has a solid position in emerging markets, this allow a continuing grow not only in sales but also an increasing to the value of the firm. Moreover the optimal capital structure concede the EV/Sales and the P/B ratio multiples to be fairly priced.

## Earnings Analysis

- The sales growth of AB Inbev surprisingly declined in Q3 of 2014 mainly because what happened between Ukraine and Russia which affected the European market. However, this event did not affect the sales growth in emerging markets as China, Brazil and Mexico which continue to grow
- The 2014 anual report release created a positive impact among investors with the increase in normalized EPS by 10,6%. Moreover, other positive impacts were created as the economy growth of Mexico and the increase of business after Budweiser been one of the main sponsors of 2014 World Cup in Brazil.
- The first quarter of 2015 was favorable to the firm regarding the continuing growth of the firm and the company approved a share buyback program for an amount of $1B which was widely accepted by the shareholders.
- The announcement about the tough deal between AB InBev and SABMiller created a positive change in stock prices, raising from approx. EUR 106 to EUR 122. Under the terms of the possible offer, SABMiller shareholders would be entitled to receive GBP 44 per share in cash.




| | Change in price after | |
|---|---|---|
| **Quarter** | **2 Days** | **1 Week** |
| **2014:Q3** | 0,71% | 1,43% |
| **2014:A** | 3,18% | 3,77% |
| **2015:Q1** | 1,38% | 2,53% |
| **2015:S1** | -4,50% | -1,45% |
| **2015:Q3** | 1,12% | 2,56% |



Source: Bloomberg (as of 30.11.2015)

# 4. Mergers and Acquisitions

| Announced Date | Target Company | Target Country | Buyer Company | Buyer Country | TV (bn) | | TV/EBITDA | Announced Premium |
|---|---|---|---|---|---|---|---|---|
| 11/11/15 | SABMiller | SA | Anheuser-Busch InBev | BEL-BR | USD | 105.00 | 16.1x | 50,00% |
| 16/11/15 | Starwood Hotels & Resorts | US | Marriot International | US | USD | 12.2 | - | 19,00% |
| 16/11/15 | Cable & Wireless Communications | UK | John Malone's Liberty Global | US | USD | 5.3 | - | 50,00% |
| 17/11/15 | Airgas | US | Air Liquide | FR | USD | 13.4 | - | 51,00% |
| 23/11/15 | Allergan | IRL | Pfizer | US | USD | 160.00 | - | 30,00% |

- Global M&A volume in November 2015 totaled a monthly record high of USD 606.6bn, up 7% on the previous monthly record of USD 567.1bn set in October 2015. M&A activity in November 2015, however, totaled 2,657 deals, the lowest monthly level since June 2005 (2,647 deals).
- According to data from Thomson Reuters, healthcare M&A reached USD 460.2bn in mid-November, eclipsing the full-year record of USD 392.4bn set in 2014, one month and a half ahead of the end of the year. Energy and power M&A stood at USD 572.4bn and high technology on USD 514.4bn.
- Though November achieved M&A monthly records by value, banks' concerns continue to increase, as M&A activity in November reaches the lowest value since June 2005 (2,647 deals) of only 2,657 deals. Although huge deals such the one of AB InBev-SABMiller and Pfizer-Allergan in the recent months appear as two of the largest deals of the year, it is widely known that banks' business relies on the smaller deals rather then the multibillion-dollar megadeals that capture media attention, which makes this constant decrease in the volume of deals to appear as a real problem in the banking industry.
- During November, eleven deals of more than USD 10.0bn were announced totalizing USD 357.1bn (59% market share), the highest monthly activity and volume on record. In 2015, the USD 10.0bn+ deals account for the highest share of global M&A volume on record (39%).
- November 2015 volume has boosted global M&A to USD 4.57tr in 2015 one month before the end of the year, almost on par with the year all time record volume of USD 4.61tr announced in 2007.
- Asia Pacific targeted M&A volume stands at a record USD 1.05tr in 2015 so far, up 61% from the value of the same period of 2014 (USD 655bn) and is the first time to exceed USD 1tr in a single year.
- Goldman Sachs topped the global M&A advisor ranking in November 2015 with USD 286.9bn, followed by JPMorgan and Morgan Stanley, with USD 286.2bn and USD 266.2bn, respectively.
- Pfizer and Allergan announced a proposed USD 160.0bn merger on November 23, which stands as the second largest M&A transaction of all time behind Vodafone AirTouch's USD 172.0bn acquisition of Mannemann AG in November 1999. The deal is also the largest tax inversion M&A deal on record.
- French Industrial gas group Air Liquid said on November 17 that it had agreed to buy US-based Airgas in a USD 13.4bn deal, in a vote of confidence in the American Industrial economy. Air Liquide is offering USD 10.3bn for Airgas Equity and also intends to take about USD 3.0bn in Debt.
- On November 11, Belgian brewing giant AB InBev has reached a final agreement with SABMiller over the terms of its takeover, having announced that it will pay USD 66.7 per share for the London-listed beverage company valuing it at USD 105.0bn, in a deal that combines the world's two biggest brewers and creates a company that makes almost a third of the world's beer.
- Marriot International is set to become the world's largest hotel company by rooms offered after reaching, on November 26, a USD 12.2bn deal to acquire Starwood Hotels & Resorts (owner of brands such as Sheraton, St Regis and W Hotels), in a deal that appears as the most significant one in the hotel sector since the buyout group Blackstone struck a USD 26.0bn deal to take Hilton Hotels private in 2007.
- John Malone's Liberty Global has agreed, on November 16, to acquire Cable & Wireless Communications in a deal that values the company in USD 5.3bn, in order to expand its telecoms business in Latin America and the Caribbean. The takeover of CWC will mean the end for one of the oldest British companies on the London Stock Exchange and represents a 49.7% premium to the company's share price before talks were disclosed.



Source: Financial Times; Bloomberg 

# The NIC Fund

Student-run Virtual Fund - November

November 2015

Nova Investment Club

www.novainvestmentclub.com

## 1. Macro Outlook

**US**

It should be taken as a fact that the US economy has recovered immensely from the 2008 financial crisis and, at the close of this year, as Janet Yellen (the Fed chair) said, is set for further growth and inflation. Both the recent strength in the job market and the fact that the US economy has reached maximum employment and price stability, have been bolstering the confidence of Yellen`s gradual tightening monetary policy. This strong macroeconomic outlook along with the lively possibility of an interest rate hike in mid-December explains why the US dollar index (tracks the currency against a basket of six major currencies) has touched its highest level since April 2003.Indeed, the FOMC gathers in two weeks for a highly expected short-term interest rate-setting meeting. According to the Futures market, the increase from near-zero levels to a quarter-point move will take place with a 75% probability. This increase probability (relative to the one of 50% in September FOMC`s meeting) has to do with two main reasons. On the one hand, as Yellen added recently: "holding the federal funds rate at its current level fro too long could also encourage excessive risk-taking", which may lead to an asset bubble in the financial markets. On the other hand, dangers from China`s economic slowdown and poor emerging markets` performance have been decreasing. It is true that, were this interest rate hike to be verified, this would set the US in a sharply divergent course from many other major nations, that may have been remaining accommodative for too long. Just take a look at the ECB, which has very recently pledged to extend its quantitative easing until March 2017 or beyond.

**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 1.1$, 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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# The NIC Fund

## Student-run Virtual Fund - November

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### Asia

After the People´s Bank of China and other Chinese financial institutions purchased 12.9 Billion Renmimbi to appreciate the currency, capital flight was largely stopped. In fact, market prospects have become bullish with China´s stock market returning to positive prospects from its lows of as well as the bond market, boosted by PBoC´s successive rate cuts. In addition to this, the latest IMF decision of incorporating the Renminbi in the Special Drawing Rights basket, where belonging currencies are viewed as the safest and used to compose central banks foreign reserves, signals exchange rate stability and limits further capital flight. As investment accounts for half of China´s aggregate demand, further stimulus are expected such as an increase of monetary easing. In order to secure future stability and not relying only on exports, Chinese government intents to rebalance the economy to consumption, meaning from manufacturing to services. Japan´s output growth is projected to pick up from around 0.5% in 2015 to 1% in 2016, as recent monetary policy supported consumer spending. The government priority of turning the gross public debt (which has risen to 230%) trend negative by 2020 remains. Confidence in Japan´s public finances is crucial, thus the Bank of Japan´s QE should continue until 2% inflation target is sustainably achieved (projected to reach 1.5% by the end of 2017).

### Emerging Markets

Amid fears related to accounting tricks performed by Brazil's president Dilma Rousseff to disguise the true state of public accounts, the congress initiated impeachment proceedings. Markets reacted euphorically and the currency strengthened. Nevertheless, a further slippage on the fiscal front is expected as the dust settles. Economy has badly soured with GDP contracting 4.5 percent on year in the third quarter. Forecasts predict a 3,8% contraction this year and a 2,8% contraction on the next. Also, Venezuela will hold congressional elections this month, with expected results setting a shift from Chavismo. IMF projects its economy to contract 10% in 2015 and a further 6%. Hyper-inflation levels are projected to be 190% this year and 210% in 2016. Also in Latin America, Argentina saw the end of the Kirchner years with Mauricio Macri's election, switching from a left to a more right oriented wing. Several issues now face the 3rd largest world soy beans exporter (which saw prices for this commodity reach historical minimums). The projected 20% inflation along with a 7% deficit are undermining an already overvalued Argentinian peso, even more when taking into account the low levels of external currency reserves. Even though tariffs are being removed and external investments in the country are mounting (as the new $650m Fiat plant announced this week), Argentina may pass once again through difficult times. Switching focus to eastern Europe with the undergoing several international adventures, Vladimir Putin has addressed this week the need to refocus on Russia's internal issues. The country's commodity-based economy is set to pass a rough time due to low prices, with the government fully aware of that situation. Russian GDP is forecasted to shrink 3,8% this year and 0,6% in 2016, with inflation hitting 15% by the end of 2015. Finally, Janet Yellen has stated that the U.S. now presents conditions to increase interest rates. However, one should still wait for the PMI and Non farm payrolls data due to their previous influence on this decision. This hike will foster capital flights, pressuring currencies to depreciate as a consequence.

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# 2. Fixed Income, FX and Commodities

## Global Tensions and the Latin Havoc

**Analyst: Luís Miguel Aguiar**
luis.aguiar@novainvestmentclub.com

**Trade Summary:**
Long 30% USD/TRY
Long 40% USD/ARG
Long 40% S F6 Soybeans Futures
Short 50% US105756BV13 Brazil 5Y in USD
Long 40% CL1 Oil Futures

Asset Class: Currencies, Bond and Commodities
Region: Europe, US and Latin America

Last trading ideas yielded a positive return of around 2.27%. The main contributors to this performance were the 20% long position on the U.S dollar versus the Turkish Lyra and the 20% short position on the Euro versus the U.S dollar, that yielded 3.48% and 3.31% respectively. In light of this feeble results I will partly change my portfolio. I will roll over on my strategy of going long on the US dollar versus the Lyra but adding more weight to this transaction due to the continuation of tensions between both Russia and Turkey which have already started to affect the Turkish currency.

I will close my position on the USDJPY since I will focus on the Latin American region where there is a high pressure for the Argentinian Peso to devalue after the end of the Kirchner years. Also in support of this idea, are the low foreign reserves of Argentina´s Central Bank which appear to be insufficient to defend the current currency level. Therefore, I will go long on the USDARS.

Also in the framework of Mr. Macri presidential win, I will go long on soybeans (S F6:COMDTY). Since Argentina is the third biggest producer of soybeans in the world, soybeans price hit bottom values, regarding the latest years, since Mr. Macri pledged to alleviate exports by reducing tariffs. However, I believe that the overflow will take to come since tariffs reduction should be more phased due to Argentina´s critical situation, such as the 20% inflation and a fiscal deficit of 7% of its GDP.

I will close my position on the Australian 5 Year Government bonds in order to focus on Brazilian. This is due to the frail situation the economy, reflected on its junk rating, and the political turmoil. Thus I will short Brazil´s 10 Year Government Bond (denominated in U.S Dollars in order to exploit the potential appreciation of the respective currency).

Considering the latest super investment in infrastructure by China´s there is a prospect for a recovery of overall commodities. As for oil in specific, it is feasible that it has already hit bottom levels and after Saudi Arabia opened the debate for an organized cut on oil supply. Aligning both facts, I will go long on oil in order to possibly collect reasonable returns in the medium to long run framework.

## Uncertainty, Tension and Crisis

**Analyst: António Damásio**
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**Trade Summary:**
Long 40% 5Y ES00000127H7
5Y IT0005107708
Short 20% 5Y US912828L997
Long 20% USD/TRY
Long 40% USD/BRL

Asset Class: Currencies, Bond
Region: Europe, US and Latin America

My positions did not perform spectacularly well (total return of 1.81%) even though it was still positive. I decided to close out my position in the German Long-term Bonds due to a contribution of -25% for the overall return, and I do not envision a capital gain for the next month (further decrease in interest rates by the ECB is likely to induce a price increase for these bonds). As regards to the Portuguese bonds, I will also close out my position due to the recent political uncertainty prevailing in the Portuguese context – mainly as regards to its likelihood to fulfill the European deficit criteria – besides a return of 1.02% in the previous month. However, I will maintain my position with a slight decrease in weights (long 20% each) in either Italian and Spanish Sovereign bonds with maturities of 5 years given the yield potential, once the QE is expected to remain until March 2017 (limiting the return on non peripheral countries) now and the riskiness of default is fairly limited. The implied probability for the Federal Reserve to increase rates is above 80% for December, hence, I will reverse my position in USD Investment Grade corporate bonds for the 5-year maturity with a short position of 20%.In terms of currencies, I will Long 20% USD/TRY due to the recent political tensions between Russia and Turkey after the shot down of a Russian aircraft for entering Turkish airspace, aligned with the economic sanctions made by Russia and the conflict in Syria. I am not taking any position in the Euro because of the recent uncertainty regarding ECB policy action (the market was taken by surprise once it was anticipating a much more aggressive QE than announced by Draghi). I will long 40% USD/BRL as Brazil's crisis is still putting pressure on the real depreciation against the main currencies (the real lost about 52% of its value against the dollar this year).

## Betting on the strong dollar

**Analyst: João Ramos**
joao.ramos@novainvestmentclub.com

**Trade Summary:**
Long 25% USD/CAD
Long 15% USD/JPY
Long 20% USD/BRL
Short 20% EUR/USD
Short 25% USD/BRL
Long 20% CL1 Oil futures

Asset Class: Currencies, Commodities
Region: US, Europe, Asia and EM

• **25% Long USD/CAD**. I have decided to invert my previous poor bet on the Canadian dollar against the US dollar (negative return of 2% proximately), in light of some recent events. Both the easing of the Bank of Canada (kept its target interest rate at 0.5%) and the poor recent GDP announcement justify this long USD/CAD position. The intention of leveraging its monetary policy divergence with the U.S to support the Canadian Economy through a relatively weaker Canadian dollar is clear. The CAD has suffered from the on-going drag in commodity prices and there`s been significant business cuts. Finally, the Bank of Canada expects to GDP to grow above potential next year, which confirms the short-term character of this trading position,

• **Long 20% CL1 Oil futures.** I have decided to rollover this contract to the closest maturity contract (January). as I believe that the oil prices should continue its recovery. In fact, Saudi Arabia has been discussing a possible supply cut and China has been heavily investing in infrastructure (which benefits the commodities prices in general).

• **Short 20% EUR/USD.** Last month`s events justify why it was this position has a more long-term trend and, therefore, I have decided to keep this trading in my portfolio. While the FED is preparing for an upward move, the ECB has eased its monetary policy (which may continue until 2017) further. Despite that the euro rallied 2.7% against the dollar on 03/12/2015, which erased almost all the cumulative monthly returns of almost 4%, this should be considered a minor setback and not as a sign for close of my long-term trading position.

• **Long 15% USD/JPY and Long 20% USD/BRL .** This strategy of betting against the Yen and the relative to the euro has revealed itself to be a profitable one (1% proximately) last month, so I decided to maintain my position. The same thing can be said about my position of long 20% on the USD/BRL, which has not yielded a significant return last month.

# 3. Equities

## Adjustments and Blockbusters

Regarding last month's performance, my portfolio yielded a return of 0,8%, with the 2% return of BP as the major contributor. Also, SPDR ETF, an ETF that tracks the Dow Jones Industrial Index, had a positive return of 1,42%, leading the maintenance of its long position in my portfolio since the festive season is rapidly approaching and production levels will rise due to increased demand.

On the other hand, GlaxoSmithKline, despite its 19 cents dividend, depreciated 1,76%. Contradicting my previous thoughts, the announcement of new products related to Asthma and HIV did not have the expected impact. Moreover, attentions in this industry are much more directed to the Pfizer-Allergan merger, leaving GSK for a second plan. Thus, I will close my position on this trade.
For this month I will include Disney in my portfolio. The main reason behind the move is centred in one of the most anticipated movies of the year, set to debut during this month: StarWars. Perceived as a large blockbuster, investors are willing to pay a price-to-earnings ratio of 19.81 (vs. an industry median of 15.63) and an enterprise value-to-EBITDA of 11.67 (vs. an industry mean of 7.28), showing confidence and anticipating good results for the company when compared to its industry peers.

**Analyst: Francisco Franco Nunes**
francisco.nunes@novainvestmentclub.com

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

## Carrying on the good way

The overall performance of my portfolio during last month was good, with a total return of 6,64%. The most profitable trade was the long position on Ryanair, which generated a positive return of 2.52 percent. The least profitable trade was the short-selling leg of the Pfizer-Allergan arbitrage. What should be noticed is that, in the last days of November, when the M&A deal was officially announced, Pfizer's price raised, instead of decline (which is what is expected to happen at the buyer's price during a merger deal). This is probably due to market's perception of great advantages coming from the deal, in particular tax savings coming from the opportunity of transferring the Pfizer's location in Ireland. As far as the return for the two legs of the arbitrage, Allergen granted a return of 2.05%, whereas Pfizer a return of -0.71%. Hence, the total return for the trade is of 1.34%. As far as the composition of the portfolio, I have decided to close the short position on Pfizer, and to go long over it, to benefit of the advantages coming from the deal. Moreover, I have decided to include a Amazon Inc. in my portfolio. Jeff Bezo's company is famous for being the biggest online retailer, offering a wide range of products, from books to electronics. Moreover, the company offers hosting services (AWS – Amazon Web Services) and is now in the video distribution sector with its service Prime. I have a bullish sentiment over the company, especially now that a deal with one of the largest Chinese search provider, Baidu Inc., has been signed. This deal will allow Amazon to penetrate also in the large Chinese Market. To finance the new positions I have decided to reduce my exposure to the EuroStoxx50 ETF as well as to Ryanair, since I believe that Paris terrorist attacks will have a negative impact on airline company, especially the ones that operate mainly in Europe.

**Analyst: Roberto Tedesco**
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Trade Summary:
Long 15% AGN US Equity
Long 10% PFE US Equity
Long 10% VOW GR Equity
Long 25% SX5EEX GY Equity (iShares EuroStoxx50 ETF)
Long 15% RYA ID Equity
Long 20% AMZN US Equity

Asset Class: Equities
Region: Europe and US

## Higher Defence calls for Returns

**Analyst: Ana Lambiza Pardal**
ana.pardal@novainvestmentclub.com

**Trade Summary:**
Long 40% AIR:FP
Long 30% CARZ:US
Long 10% BA:LN
Long 20% VOD:LN

Asset Class: Equities
Region: US and Europe

This month my portfolio had a return of about 4,02%. The main drivers of profitability were Airbus, with a total contribution to return of about 1,45%. With the latest news on terrorist attacks which will, without any doubt, incredibly impact the spending on defence of the major European countries, and considering that Airbus is the leader in airspace defence on Europe I will, therefore, reinforce my long position based on the belief that this will bring considerable profits for this company, hence going long by 40%.

Supposing the idea that uncertainty on security issues will continue on reigning Europe, BAE Systems, the largest defence contractor in Europe (whose stock price has increased by about 16% since the beginning of November) will most likely experience increasing opportunities on providing its services. Following this reasoning, I will go long by 10% on this company.

Regarding Vodafone, whose performance added 1,42% of the return of the total portfolio, I will sustain my long position, although reducing it to 20% since I truly believe that the expansion on the defence budgets will carry further opportunities that should be captured.

With the continuation of the expansionary monetary policy on Japan and the consequences it has on the weakening of the Japanese Yen (providing a competitive advantage) amid a strengthening dollar focused on a rate hike, I will keep my long position of 30% on CARZ:US, whose main contributors to return were Nissan, Toyota and Yamaha.

I will abandon my Short position in EXV5:TH ETF since its behaviour proved wrong my belief that most European manufacturers were to be harmed by the VW problem.

# December Article

## Abengoa - the biggest Spanish bankruptcy ever?

First things first: What's Abengoa… and how does a leading renewable energies player, listed both in the Madrid Stock Exchange and in the NASDAQ, suddenly files for creditors' protection?

Abengoa is a Seville-based renewables specialist with several operations within the US. The company acts both as an operator and constructor in the renewables energy sector. Besides that, the company invests in the research of sustainable technology, which it implements both in Spain and globally. These technologies include concentrated solar power, second-generation biofuels, and desalination.

It's true that the sharp drop in oil demand from China and OPEC's (or just Saudi Arabia's) stubbornness to keep current output is putting pressure in energy prices and the energy sector. Therefore and especially for those producers that are asset heavy and CAPEX intensive, the need to keep funding their activity is a common requirement. Abengoa serves as no exception due to its exposure to the price of oil and its high leverage ratio of 709.8%.

In fact, others were caught in this capital squeeze. In 2011, the private equity group lead by Mr. Henry Kravis, KKR & Co., bought in a USD 7.2bn deal, the American shale-oil driller Samson Resources, which is now being a victim of its' own success. They also filed for bankruptcy protection last September.

However, Abengoa's health was already a subject of vigorous debate both among investors and credit rating agencies. After the credit-rating agency Standard & Poor's surprisingly upgraded Abengoa's bonds from B to B+ with a stable outlook, citing EUR 3.0 bn of liquidity last July another vow of confidence came from some leading European banks. The company announced a EUR 650 mm capital increase in September, which included a commitment from HSBC, Santander and Crédit Agricole to underwrite 70% of the planned capital to be raised. At the same time, Moody's said it was putting the company on review for a potential downgrade and was not the only one; the credit insurance on the heavily indebted company was implying a higher than 40% probability that Abengoa would default within a year, but apparently, "Christmas" could come earlier than expected.

Another worth mentioning problem for Abengoa US-listed Yieldco's* investors, is how exposed they might be to the troubled Spanish mother, which manages the day-to-day running of the assets bought. According to some investors, there's the existence of cross-default clauses on Abengoa Yield's project finance debt, which is particularly worrying. Besides, the Spanish insolvency law, has a two-year "look-back" period, which could theoretically examine all the numerous assets sold to the Yieldco, including the Spanish solar plants whose sale was backed by a bridge loan until the end of 2015 from the American hedge fund Elliot Management.

But not everything is bad news. According to Abengoa's investors last Friday, December 4th, the company presented to its creditors a viability plan where it asks for liquidity, more precisely, EUR 450 mm until March 2016 to be added to its current consolidated gross debt of EUR 8.9 bn (with an average cost of 7%). Additionally, the company have also admitted that is currently reducing staff in the headquarters and transferring equipment to adapt itself to the efficiency objectives and meet the necessary competitiveness in the current situation. Regarding its operations in the US, Abengoa has indicated that its Yieldco is operating normally but does not exclude the possibility of discontinuing projects for the meantime as well, until the situation is clearer and more stable.

Not only this specific case brings big implications for Abengoa's creditors, but also to the European high-yield bond market in general. The Spanish company should not be dismissed as a one-off and analysts at UBS at the end of July warned of possible contagion in the commodity sector, putting these companies' defaults as a threat to other sectors and higher-rated bond issuers.

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*Yieldcos allow companies to sell off operating assets into a publicly traded entity, originating stable dividend stock, which should be dependent on the balance sheet of the parent company

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