Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Fall 2017

Date**:* Friday, November 10th | ***Time: *2:15 – 3:30* p.m. | ***Location: AIM Research Room 488***

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These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Each student will spend about 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A.

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OSI Systems, Inc. (OSIS)
November 10, 2017

Max Mattappillil Domestic Industrials

OSI Systems, Inc. (NASDAQ:OSIS), is a vertically integrated designer and manufacturer of specialized electronic systems and components for an extremely wide variety of applications. OSIS is split into three segments: Security (58% of revenue), Healthcare (21%), and Optoelectronics & Manufacturing (21%). OSIS operates in a variety of markets, including cargo and vehicle inspection, diagnostic cardiology, industrial automation systems, and aerospace & defense electronics. The company was founded in 1987 and is headquartered in Hawthorne, California.

Price ($): (11/04/17)	89.04
Price Target ($):	106.40
52WK H-L ($):	$66.00 - $96.64
Market Cap (mil):	1,679.00
Insider Holdings	7.29%
Avg. Daily Vol (000s):	155,208.70
Yield (%):	0.00%
ESG Rating	BBB

Beta:	1.46
M-Term Rev. Gr Rate Est:	7.77%
M-Term EPS Gr Rate Est:	23.98%
Debt/Equity:	0.61
Debt/EBITDA (ttm):	2.38
WACC	11.13%
ROA:	1.83%
ROE:	3.73%
ROIC:	3.69%

FY: Dec	2017A	2018E	2019E	2020E
Revenue (Mil)	960.95	1,070.38	1,157.84	1,243.27
% Growth	15.82%	11.39%	8.17%	7.38%
Operating Income	77.88	106.03	122.87	138.38
% Growth	28.97%	36.14%	15.88%	12.62%
Operating Margin	8.10%	9.91%	10.61%	11.13%
EPS (Cal)	$1.11	$1.98	$2.53	$3.03
P/E (Cal)	80.2	45.1	35.2	29.4
EV/EBITDA	14.24x	7.92x	7.10x	6.47x

Recommendation

Whether it is a single entity or the entire nation, security represents an integral component of an individual's wellbeing. Developments in product inspection, notably in airports and borders, have helped protect individuals from items that could be potentially detrimental towards a group's health and safety. However, a continued effort to maintain strict security measures involves the application of innovative techniques to enhance the precision of these inspection instruments. Utilizing an enhanced X-ray technology, OSI Systems possesses the capability of identifying large sets of items, including explosives, weapons, and narcotics, in containers with differing geometries. Moreover, OSIS is one of the only companies that can scan objects with X-rays ranging from 140 kilo electron volts to 9 mega electron volts, allowing the detectors to precisely identify varying densities of matter as well as radioactive material in concealed containers. OSIS' high precision instruments translates smoothly into healthcare as they are a global manufacturer and distributor of patient monitoring products and clinical networking solutions. Not only does OSIS create ambulatory blood pressure monitors and electrocardiography devices – instruments that are widely used every day across many hospitals – but they also create software to quickly compile large data sets regarding patient history for faster clinical analysis. Additionally, OSIS creates highly-mobile monitors that allow a nurse or doctor to transport a patient from one room to another without losing any key information regarding the patient's medical condition. This data is accessed from a central database and is only available in government-protected electrical frequencies, maintaining a high level of confidentiality. Regarding the Optoelectronics and Manufacturing division, OSIS' vertically-integrated business contributes strongly towards the success of this segment. Both spare-parts and fully functioning systems are sold to a variety of customers, as well as key instruments necessary for OSIS' two other divisions. The O&M segment is well-positioned for new technology in inspection systems and healthcare as well as strong demand for customized products as the OSIS has full control over the entire production process. Therefore, it is recommended that OSI Systems, Inc. be added to the AIM Equity Fund with a price target of $106.40, which represents a 19.50% upside. OSIS does not pay a dividend.

Investment Thesis

- **Domestic strength and international expansion.** OSIS has rapidly acquired a plethora of long-term contracts both domestically and internationally across their security division. During fiscal 1Q18, OSIS obtained a $21M multi-year contract from U.S. Customs and Border Protection for large scale screening of vehicles capable of carrying a diverse load of items and materials. The added pressure of the U.S. DHS on enhanced screening procedures complements OSIS as the company can satisfy the demand for machinery capable of highly precise security checks. Additionally, a $40M contract to implement a country-wide security scanning program for high-energy cargo in Europe strategically positions OSI to enhance its international presence. OSIS will be responsible for providing the design and construction of the inspection sites, command, and control center. Moreover, an additional border security contract calls for continued support of OSIS' RTT cargo inspection system across Europe as well as Latin America, providing the company with a new international market that begins in Panama.

- **Diverse product mix and strong relationships with market leaders**. In addition to providing security equipment at seaports, border crossings, and nuclear facilities, OSI has created telemetry systems that allow clinicians to view valuable patient data from the hospital's database at any bedside monitor. Their extremely wide collection of products protects the company in the event a small set of their products fail or face declining demand. Maintaining client relationships with the U.S. Department of Defense, U.S. TSA, Raytheon, Northrop Grumman, and Medtronic provides OSIS with the ability to lock down detailed, multi-period contracts before their competitors.
- **Acquisitions: To infinity and beyond.** Since its inception, 16 different companies have been acquired relating to electronic systems, healthcare, and precision instrumentation. These acquisitions have helped OSI grow their business over time and create new segments that greatly diversified their product mix. In fact, OSIS recently acquired the global explosive trace detection business from Smiths Group, positioning OSIS to capture a global base of 11,000 units and boost performance for fiscal 2018. American Science and Engineering has also been acquired and will contribute strongly towards developing a larger customer base and a wider product line, as well as provide at least $18M in annual pre-tax savings till 2019.

Valuation

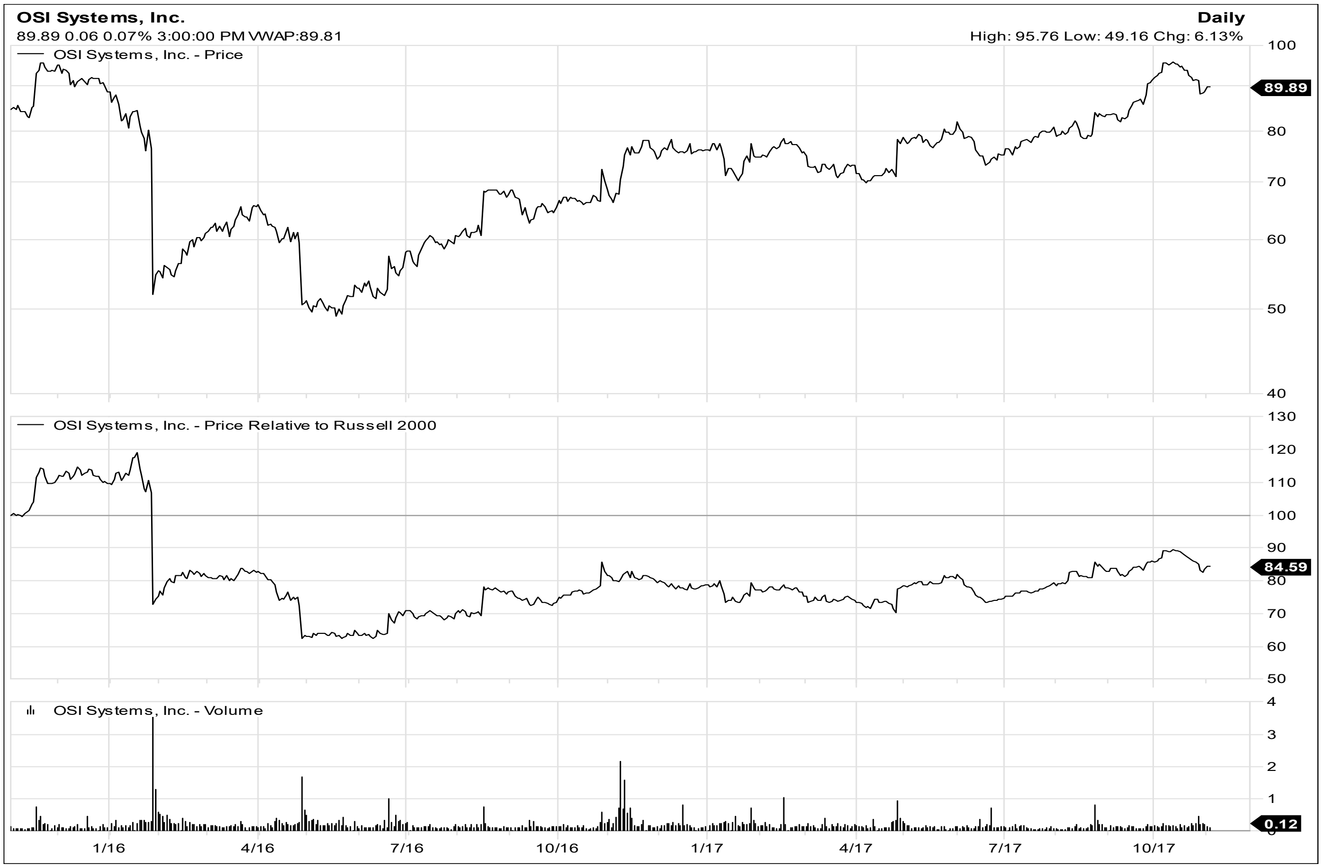
To reach an intrinsic value for OSIS, a 5-year DCF model as well as an EV/EBITDA multiple analysis was conducted. Using a terminal growth rate of 2.00% and a WACC of 11.13%, an intrinsic value of $100.33 was reached. A sensitivity analysis of ± 0.20% on the terminal growth rate and ± 2% on the WACC ranged from $86.77-$118.44. Additionally, a EV/EBITDA multiple valuation was conducted utilyzing OSIS' weighted peer average of 9.84x as well as 2018 projected EBITDA of $240.25M, resulting in a valuation of $124.62. A sensitivity analysis of ± 2 on the multiple and ± $20M on 2018 projected EBITDA ranged from $102.65 - $148.73. Weighing the two valuations 75/25 respectively, a price target of $106.40 was reached, yielding an 19.50% upside.

Risks

- **A double-edged sword: product diversity and impairment.** Although OSIS creates many products and can target a diverse customer base, they have had a history of impairment charges associated with products that were no longer deemed useful for projects they've completed. The impairment charges are associated with a small set of products, but a failure to minimize these charges may result in greater than anticipated expenditures that could slow down top line growth.
- **Global diversity can be challenging.** While demand in the Healthcare division has remained strong domestically receiving a cushion from recent performance, there have been some challenges internationally regarding new product launches. Although the company works towards rapid innovation within each of their divisions, the consequences of sub-par launches could negatively impact OSIS going forward.

Management

Deepak Chopra founded OSI Systems and has held the role of President, CEO, and Director since the company's inception in 1987. He has held numerous positions at Intel and received a B.S. in Electronics from Punjab Engineering College. Alan Edrick is Executive Vice President and CFO and has 25 years of experience in financial management, joining the firm in 2006.



Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
OSI Systems, Inc.	OSIS	961	3.73	1.83	0.61	5.62%
Analogic Corporation	ALOG	486	3.81	3.21	0.00	-32.77
Leidos Holdings, Inc.	LDOS	9,500	11.61	3.90	104.85	-5.66
Hamamatsu Photonics K.K.	6965	623,211	-	-	-	9.64
Benchmark Electronics, Inc.	BHE	1,505	4.77	3.29	16.38	-1.89
Peer Averages		158,676	6.73*	3.47*	40.41*	-9.6

* Omits any cell that has "-"

Source: Factset

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
OSI Systems, Inc.	OSIS	1,680	1.67	72.50	7.92	2.67
Analogic Corporation	ALOG	996	1.93	49.00	9.65	1.83
Leidos Holdings, Inc.	LDOS	9,500	0.76	21.76	16.60	2.45
Hamamatsu Photonics K.K.	6965	5,471	3.96	34.18	13.99	2.79
Benchmark Electronics, Inc.	BHE	1,505	0.66	23.64	7.30	1.10
Peer Averages		4,368	1.83	32.15	11.89	2.04

Source: Factset

Euronet Worldwide, Inc. (EEFT)

November 10, 2017

Alex Czachor — Domestic Technology

Euronet Worldwide, Inc. (NASDAQ: EEFT) is an electronic payments provider who offers payment and transaction processing and distribution solutions to financial institutions, retailers, and individual consumers. EEFT generates revenue under three segments; Money Transfer (41% of FY'16 revenue), Epay (35%), and EFT Processing (24%). The company operates globally deriving 72% of revenues from a diverse pool of countries while generating the remaining 28% domestically. The company was founded in 1994 and is headquartered in Leawood, KS.

Price ($):	$ 90.34	Beta:	1.03	FY: Dec	2016A	2017E	2018E	2019E
Price Target ($):	$ 114.17	M-Term Rev. Gr Rate Est:	13.9%	Revenue (Mil)	1958.6	2277.9	2596.8	2956.4
52WK H-L ($):	70.51-101.07	M-Term EPS Gr Rate Est:	15.4%	% Growth	10.5%	16.3%	14.0%	13.9%
Market Cap (mil):	4,743	Debt/Equity:	66.71%	Oper Inc	249.8	319.4	387.8	454.4
Insider Holdings	4.28%	Debt/EBITDA (ntm):	1.19x	Op Margin	12.8%	14.0%	14.9%	15.4%
Avg. Daily Vol (mil):	0.3	WACC	8.15%	EPS (adj.)	$4.03	$4.58	$5.48	$6.32
Yield (%):	0.00%	ROA (%):	7.09%	P/E (Cal)	17.99x	20.95x	18.62x	17.08x
ESG Rating	BB	ROE (%):	19.32%	EV/EBITDA	11.33x	12.21x	10.91x	10.12x
		ROIC (%):	6.41%	FCF/share	$5.63	$6.31	$7.18	$8.01

Recommendation

As the electronic payments industry continues to grow, Euronet is well positioned to benefit. According to the 2017 World Payments Report, electronic payments are forecasted to grow at a 17.6% CAGR from 2015-2019E. Specifically, EEFT stands to benefit significantly from its exposure to the money transfer industry, which represented 46% of the company's FY'16 adjusted EBITDA. According to staista.com, transaction value within the money transfer industry is expected to grow at a 22.4% CAGR through 2021. From 2012 to 2016, the company has been able to generate a solid track record of growth in both revenues and adjusted EBITDA, achieving a CAGR during this time of 11% and 23%, respectively. Moving forward it is likely the company will continue to see strong growth in their money transfer business as well as benefit from a shift towards its higher margin services, as of FY'16 roughly 50% of EFT revenue came from value added services such as their dynamic currency conversion (DCC) service. Due to these trends coupled with the follow-on accretion from both the XE.com and YourCash acquisitions management believes the company will be able to generate 16-18% growth in adjusted EBITDA over a two year outlook. Additionally, EEFT also stands to benefit from its core EFT (ATM) processing business. Currently the global ATM market is valued at approximately $13 billion and is forecasted to grow to $26 billion by 2023, according to research by Global Market Insights. With exposure to 35k ATMs across 50 countries, EEFT is well positioned to take advantage of this strong industry trend. Their EFT processing segment is relatively hard to compete against as there are few companies that can provide EFT processing services in multiple country markets - resulting in most of the company's competitors being single-country bank-owned processors. The company has also shown its ability to grow through the integration of strategic acquisitions, making over 30 acquisitions since 1998. Management has stated that they will likely continue to augment organic growth and add complementary technology through future M&A activity. Moving forward, EEFT shares will likely benefit due to strong industry trends, managements focus on driving higher margins over time, and the potential for accretive M&A. Due to these reasons it is recommended that EEFT be added to the AIM small cap equity fund with a target price of $114.12, representing a 25.47% upside.

Investment Thesis

- **Strength in Money Transfer Segment.** EEFT primarily provides global C2C money transfer services under the brand name Ria. Due to recent acquisitions the company has broadened its market share within the industry to approximately 3-4% of the total market and is now the third largest global player. Within this segment migrant remittances continue to be a strong driver of growth. Over the last four years the number of remittance transactions processed has grown at a 28% CAGR to 82M transactions with the company processing over $33B in money transfers in 2016. According to The World Bank, there are approximately 180 receiving countries, and EEFT operates in 150 of these markets. Notably, four receiving markets (India, Mexico, the Philippines, and China) comprise roughly 32% of global receive volume. Currently EEFT has relatively low exposure to these countries, representing a massive expansion opportunity. It is likely that management continues to focus on expanding in these areas and if they can increase exposure to these huge receive markets, it would represent a strong LT growth opportunity.

- **Leading Provider of ATM Technology.** Euronet's proven track record of identifying attractive ATM locations globally has set itself apart from its competitors. Over the past five years the number of transactions processed across EEFT's networks have increased at a CAGR of 12.8%. According to Lake Street Capital, transactions processed is expected to increase at a 13% CAGR from 2016 to 2018E. Moving forward management is committed to growing ATMs under management due to the higher margin aspect of the business, recording a margin of 51.6% in FY'16. The growth of dynamic currency conversion (DCC) will likely drive margin expansion for the ATM segment into the foreseeable future, due to the higher margins associated with the service. If the DCC service is selected, the company can generate as much as 4% on the transaction. Implementing this service resulted in an additional $.05 of average revenue per EFT transaction year-over-year in FY'16.
- **Future Margin Expansion.** Scalability and emergence of additional services will drive EBITDA margin expansion in the near term. In specific, the money transfer segment will drive the company's overall margin expansion as it scales in large remittance markets. EEFT has an advantage as it is able to undercut established competitors on price while leveraging a sub-scale infrastructure, enabling the company to gain share while improving its EBITDA margin. Additionally, the emergence of the DCC service will aid in future margin expansion. As management estimates the company can generate a 5-10% fee on an average transaction of about $200 at its best located ATMs. Management also estimates that roughly 60% of its EFT growth will come from machines with better economics and the balance from new ATMs in high transaction locations.

Valuation

In order to reach an intrinsic value for EEFT, a five-year DCF model was constructed. Using a terminal growth rate of 2.75% and a WACC of 8.16%, an intrinsic value of $117.09 was reached. Additionally, an EV/EBITDA multiple valuation was calculated using a peer average multiple of 11.21x and a 2018 adjusted EBITDA of $504.75, resulted in a $102.15 valuation. Weighting the two valuation models 60/40, a price target of $114.12 was reached, representing a 25.47% upside. The firm does not pay a dividend.

Risks

- **Large Exposure to International Markets.** Due to EEFT reporting in US dollars coupled with approx. 72% of revenue generation stemming from foreign currencies, EEFT may face substantial FX headwinds due to the stronger US dollar.
- **Integration of Acquisitions.** Since 1998 the company has made over 30 acquisitions in order to expand its operating segments. It is expected that management continues to participate in M&A activity and because of this the company may experience risk from integration difficulties, overpaying, or struggling with debt levels.

Management

Michael J. Brown has served as CEO and President of EEFT since 1996 when he founded the company. Mr. Brown received his M.S. in Molecular and Cellular Biology from the University of Missouri. Rick L. Weller joined EEFT in 2002 and is currently the Executive Vice President and the CFO.

Peer Valuation

Name	Ticker	Market Cap (mil)	P/E FY1	EV/EBITDA (FY'17)	EV/EBITDA ('18E)	FCF Yield (actual)
Euronet Worldwide	EEFT	4,948.0	20.95x	12.21x	10.91x	7.78%
Western Union	WU	8,924.0	10.60x	8.79x	9.00x	9.08%
Jack Henry & Associates	JKHY	8,634.0	34.09x	17.00x	15.90x	3.88%
ACI Worldwide	ACIW	2,728.5	46.19x	13.51x	13.13x	2.74%
Blackhawk Network	HAWK	1,988.0	21.47x	11.51x	10.50x	6.16%
Cardtronics	CATM	790.0	5.98x	7.25x	8.50x	5.77%
Peer Averages		**4,612.9**	**23.67x**	**11.61x**	**11.41x**	**5.47%**

Source: Factset

Peer Fundamentals

Name	Ticker	Revenue	ROIC	ROE	Debt/Equity	Est. 5 YR NI Growth
Euronet Worldwide	EEFT	2,167.60	6.4%	19.3%	66.7%	123.76%
Western Union	WU	5,448.90	5.0%	19.9%	498.1%	-83.20%
Jack Henry & Associates	JKHY	1,431.10	-	-	-	58.60%
ACI Worldwide	ACIW	1,040.50	2.8%	5.3%	90.0%	67.60%
Blackhawk Network	HAWK	2,431.80	-	-	90.4%	-121.70%
Cardtronics	CATM	1,454.50	-	-	264.4%	-448.60%
Peer Averages		**2,361.36**	**3.90%**	**12.60%**	**235.73%**	**-105.46%**

Source: Factset

Essent Group Ltd. (ESNT)
November 10, 2017

Mitchell Beine — International Financial Services

Essent Group (NYSE: ESNT), through its primary subsidiaries Essent Guaranty and Essent Reinsurance, provides private mortgage insurance (PMI) to mortgage lenders and investors throughout the United States, from which it derives all the company's revenue. ESNT operates solely in the private mortgage insurance segment and has 376 employees. The firm serves a diversified customer base totaling 1,360 with no single state representing more than 10% of total revenue. Essent Group was founded in 2008 with its headquarters located in Hamilton, Bermuda with operation centers in Pennsylvania, North Carolina, and California.

Price ($): (11/2/17)	41.44
Price Target ($):	48.99
52Wk H-L ($):	(25.84 - 45.10)
Market Cap (bil):	4.18
Float:	85.4%
Avg. Daily Vol (mil):	1.12
Dividend ($):	0.00
Yield:	0.0
ESG Rating	N/A

Beta:	1.22
WACC:	8.70%
M-Term BVPS Gr Rate Est:	18.89%
M-Term EPS Gr Rate Est:	34.54%
Debt/Equity:	0.12
FCF/Total Debt	2.70
ROA:	12.97%
ROE:	18.08%
ROIC:	17.89%

FY: Dec	2015	2016	2017E	2018E
Revenue (mil):	353.3	458.3	552.1	668.1
% Growth	47.52%	29.72%	20.47%	21.01%
Pretax Income (mil)	228.4	311.9	393.2	477.6
Pretax Margin	64.65%	68.06%	71.22%	71.49%
EPS	1.72	2.41	3.04	3.55
P/E	12.73	13.43	13.63	13.63
BVPS	12.08	14.43	18.37	21.84
P/B	1.81	2.24	2.26	2.26

Recommendation

Despite being headquartered in Bermuda, Essent Group derives all its revenues from the US. The firm is one of only six US private mortgage insurers and is growing at the second fastest rate in the industry with revenue growth at a 5-year CAGR of 57%, totaling $458 million in 2016. ESNT was formed to serve the US housing finance industry at a time when the demands of the financial crisis and a rapidly changing business environment created the need for a new, privately funded mortgage insurance company. The firm has carved out an estimated 13% market share in a relatively short period of time since its inception. These revenues are poised to continue growing as the US economy is favorable to increased home buying, thereby presenting more opportunities for ESNT to accumulate mortgage insurance revenue. Essent Group's target market is also expected to continue to increase dramatically, as after years of decline young adults have begun buying homes more frequently than in the past as Millennials become homeowners. This will allow the firm to continue to build upon steady growth in market share that has increased at an 8.4% CAGR, from 8.6% in 2012 to 12.9% in 2016. Despite these tailwinds, ESNT carries a favorable valuation including a P/E multiple below the industry average suggesting room for further capital appreciation. This combination of drivers pointing to increased insurance revenues with a discounted valuation make Essent Group an appealing stock. As a result, it is recommended that ESNT be added to the AIM International Fund with a target price of $49 representing 18% upside. The company does not currently pay a dividend.

Investment Thesis

- **Favorable Time to Buy a Home.** Home ownership has been on the rise in the US, evidenced by homeownership rate reaching 63.9% in 3Q17. This is an increase from 63.7% in 2Q17 and 63.5% YoY. The fact that homeownership rates are rising while average home prices are increasing is important to note – high prices are not deterring buyers, and these higher prices also increase the likelihood that mortgage insurance is used. Rates are currently still near historical lows and are expected to grow slightly in 2018, while unemployment is at a 16-year low. Each of these macroeconomic factors bode well for increased home purchases moving forward. This will benefit Essent Group greatly, as mortgage insurance is more often utilized in purchase originations than in refinancing, and refinancing is likely to decline as interest rates increase. In recent years, refinancing volume has almost outpaced purchase originations. In 2014, refinancing made up 43% of the market compared to residential purchases, and this figure has risen to 48% in 2016. A reversal in this trend will lead to increased revenues for ESNT.

- **Millennials are a Prime Target Market.** After years of decline, young adults have begun buying homes more frequently – specifically, the Millennial generation. About 84 million Americans fall into this demographic, and they are entering the young adult phase where they are old enough to buy their first home. Mortgage insurance is often not an option for young adults who may not have the capital saved to put 20% of a home's value down, especially as nationwide tuition costs continue to rise. It is not difficult to foresee an increase in the percentage of young adults requiring mortgage insurance as student loans and debt continue to grow in the US. A recent survey of homeowners and potential buyers feel that a person should own his/her own home by the age of 30. As the Millennial age group continues to grow into young adults, Essent Group should see an uptick in home purchases, coupled with greater mortgage insurance revenues.
- **Favorable Valuation Relative to Industry.** Essent Group is unique among the six US private mortgage insurance providers in that they are firmly in the growth stage of the business cycle. The only other company that can make this claim, Radian Group, trades at an extremely high P/E valuation of 24.4x. ESNT, on the other hand, trades at a multiple of just 13.3 despite its EPS growing at an impressive 4-year CAGR of 28.4%. With significant drivers remaining in place for further growth, this valuation suggests a discount and a timely opportunity to buy.

Valuation

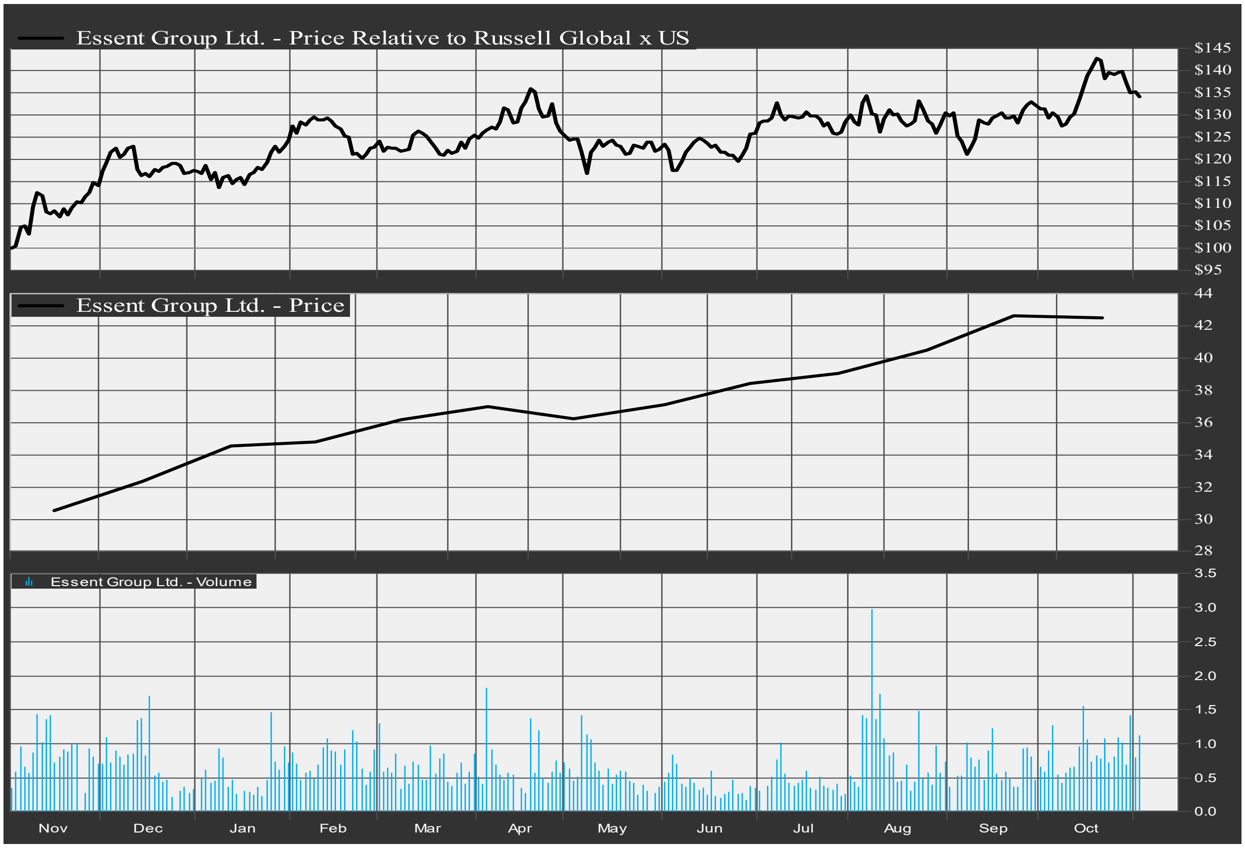
To find ESNT's intrinsic value, a P/E relative valuation and P/B valuation were used to compare ESNT to its peers. Using a peer average P/E ratio of 17.39x and an estimated 2017 EPS of $3.04, a value of $52.33 was obtained. This produces an upside of 29.30%. Using a peer average P/B ratio of 2.36x and an estimated 2017 BVPS of $18.37, a value of $38.99 was obtained. This produces a downside of 3.66%. Weighing the P/E and P/B valuations 75/25, an intrinsic value of $48.99 was found, yielding a 18.22% upside.

Risks

- **Federal Reserve Policy Changes.** Home purchases and private mortgage insurance are both influenced by interest rates. If interest rates were to rapidly rise, this would not bode well for the outlook of home purchases and the mortgage insurance that come with them. Additionally, this may be influenced by who takes over as Federal Reserve Chair. If President Trump appoints a new chair who tends to be hawkish and aggressively pushes rate increases, this may have a negative impact on ESNT's stock.
- **Changes to Legislative and/or Regulatory Policies.** For this industry, GSE's Fannie May and Freddie Mac need to be monitored. Changes to governmental policies regarding these GSEs would greatly impact business strategies as well as decisions for Essent Group. If these changes are not in the favor of Essent Group's interest, the stock could suffer as a result.
- **Management Initiatives.** Management of Essent Group initially formed the company in response to the financial crisis in 2008. The company has done well to grow quickly in response to this event. Despite this, the firm remains relatively young and management has shown a willingness to take chances when seeing an opportunity. While this could be a positive for ESNT, it also could expose the firm to unexpected risk.

Management

Mark Casale serves as Chairman, President, and CEO of Essent Group and has more than 25 years of experience of financial services management experience. Mr. Casale holds a BS in accounting from St. Joseph's University and an MBA in finance from New York University. Lawrence McAlee serves in the role of SVP and CFO. He also has over 25 years of experience in the areas of finance, accounting, controls, and risk management. Mr. McAlee has business experience from prior roles with Sovereign Bancorp and Arthur Anderson, and holds a BS in accounting from St. Joseph's University and is a CPA.



Peer Fundamentals						
Name	Ticker	Revenue (mil)	ROE	ROA	Debt/Equity	1 yr Rev Growth
Essent Group	ESNT	458	18.08	12.97	0.07	29.72%
Genworth Financial	GNW	8,369	-1.95	-0.23	0.32	-3.85%
Radian Group	RDN	1,238	11.48	5.33	0.26	3.83%
NMI Holdings	NMIH	124	14.96	8.58	0.30	130.58%
MGIC Investment	MTG	1,062	14.32	5.87	0.46	2.09%
Arch Capital	ACGL	4,463	9.58	2.64	0.30	4.52%
Peer Averages		3,051	9.68	4.44	0.33	27.43%

Source: FactSet

Peer Valuation						
Name	Ticker	Market Cap (bil)	P/E	P/B	P/TBV	Div Yld:
Essent Group	ESNT	4.18	15.13	2.31	2.31	0.00
Genworth Financial	GNW	1.69	-0.29*	0.15*	0.15*	0.00
Radian Group	RDN	4.57	24.36	1.34	1.49	0.00
NMI Holdings	NMIH	0.97	13.13	1.32	1.33	0.00
MGIC Investment	MTG	5.29	14.70	1.36	1.36	0.00
Arch Capital	ACGL	13.02	17.35	1.66	1.89	0.00
Peer Averages		5.108	17.39	1.42	1.52	0.00

Source: FactSet

NetEase, Inc. ADR (NTES)

November 10, 2017

Tim Milani International Technology

NetEase, Inc. ADR (NASDAQ: NTES) is a leading Chinese online technology and game company with additional key services focused on mobile, media, email and ecommerce. NTES develops and licenses some of China's most popular PC and mobile games from its in-house studios or through its partnerships with others including Blizzard Entertainment and Mojang AB, a Microsoft subsidiary. The company's revenue is derived from its three main segments of online games, advertising services and ecommerce / email (73.0%, 6.0%, and 21.0% of revenues, respectively) with most of it coming from China (96.7%). NTES was founded in 1997 and is headquartered in Beijing, China.

Price ($):	$ 315.00
Price Target ($):	$ 378.25
52WK H-L ($):	211.11-337.55
Market Cap (mil):	41,347
Insider Holdings	44.40%
Avg. Daily Vol (mil):	1.348
Yield (%):	1.3%
ESG Rating	B

Beta:	1.33
M-Term Rev. Gr Rate Est:	46.24%
M-Term EPS Gr Rate Est:	32.66%
Debt/Equity:	10.44%
Debt/EBITDA (ttm):	29.00%
WACC	13.57%
ROA (%):	21.21%
ROE (%):	32.01%
ROIC (%):	29.19%

FY: Dec	2015A	2016A	2017E	2018E
Revenue (Mil)	3,626.3	5,735.2	7,952.1	11,341.1
% Growth	91.0%	58.2%	38.7%	42.6%
Oper Inc	1,156.49	1,897.11	2,619.68	3,721.31
% Growth	49.76%	64.04%	38.09%	42.05%
Op Margin	31.89%	33.08%	32.94%	32.81%
EPS*	$8.10	$13.18	$16.44	$18.91
P/E (Cal)	38.9x	23.9x	23.01	20.0x
EV/EBITDA	16.7x	11.9x	16.1x	12.2x

Recommendation

NTES is the third largest game company in the world behind it's rival Tencent and partner Activision Blizzard, as measured by total enterprise value of $36.11 billion. The firm currently commands an 18% share of China's mobile game market and has approximately 892 million accounts across its PC and mobile platforms. NTES was a key pioneer in the development of internet services in China and remains dedicated to provding the best quality to its clients and customers through its content, community, communications and commerce. Many of the games NTES has created are very popular with users in China with their top three games: Fantasy Westward Journey, Ghost, and Onmyoji, ranking in the top 10 grossing app charts in the Apple iOS store in the country. NTES additionally licenses many of the most popular western titles in China including many from Activision Blizzard, such as World of Warcraft, Hearthstone, Diablo III and Overwatch as well as Mojang's Minecraft. Recently, NTES has also been trying to expand this success to the overseas game markets with an exisiting foothold in Japan and South Korea in addition to plans to target Canada and the US. Kaola and Yanxuan, NetEase's e-commerce platforms, have also experienced tremendous revenue growth at 61% YoY with a gross margin of 11.3%. Kaoloa has become the leading provider of cross-border e-commerce in China only 30 months after its creation due to the high demand from Chinese consumers. The company has also remained commited to returning value to its shareholders through its constant dividend stream of $0.98, $2.44, $1.77 and $2.92 from 2013 – 2016 and offers a current yield of 1.3% - as well as offering a share repurchase program of up to $1 billion announced in November 2016. However, in spite of these factors, NTES has recently experienced a downturn in stock price from a revenue growth slowdown at -12.2% QoQ due to a few temporary issues, such as the delay of several anticipated games as well as the underperformance of Onmyoji. With this short-term decline – along with the strong drivers - it is recommended that NTES be added to the AIM International Equity Fund with a price target of $378.25 per share, representing a 20.08% upside to the current market price of the stock.

Investment Thesis

- **Temporary Weakness Priced In.** NTES recently experienced a temporary downturn in share price due to over 13 game releases across diversified genres being delayed including their planned launch of Minecraft in China as well as one of its top mobile games Onmyoji declining in popularity. The delays are the primary cause of the downturn as NTES has been transitioning its content from traditional medium and MMORPG games to other genres. However, with the launches of the delayed games as well as its previously growing mobile game revenue up 104%YoY in 1Q17 and 74%YoY in 2Q17, the current lower price represents an attractive buying opportunity as new content and proven performance should drive the stock upwards.

- **Diversified Opportunities.** With Kaola and Yanxuan NTES has successfully entered the e-commerce business in China which as an insustry is projected to grow at a CAGR of 17% through 2021. In response, this segment of NTES is projected to grow to 31% of revenue up from the current 21% by 2020. NTES game segment is also licensing Minecraft in China launching its mobile verison in Q317 and its PC version in 2018. Minecraft has previously been unavailable in China but is the second most popular videogame of all time with over 122 million copies sold across many platforms since its relase in 2009 and will provide NTES's game segment with a great opportunity. This diversification and strengthening of revenue sources is a longterm postive.
- **Chinese Game Market Growth.** The Chinese game market recently surpassed the US in early 2017 as the world leader by market value at $27.5 billion. It is predicted to continue this growth trend as the industry is expected to be valued at over $35 billion by 2021. This will be driven by growth in the mobile game market in the country which had 503 billion players in 2016 and is projected to grow to over 700 million by 2021 when it will represent 58% of total domestic game revenue. Average revenue growth in the online gaming sector is a projected to have a CAGR of 20% in China for the next 5 years. NTES has already benefited from this trend as in 2016 its total net revenue increased by 67.74%YoY and online game revenue increased by 62.8%YoY. These growth trends are likely to continue due to the game market's prospects in China.

Valuation

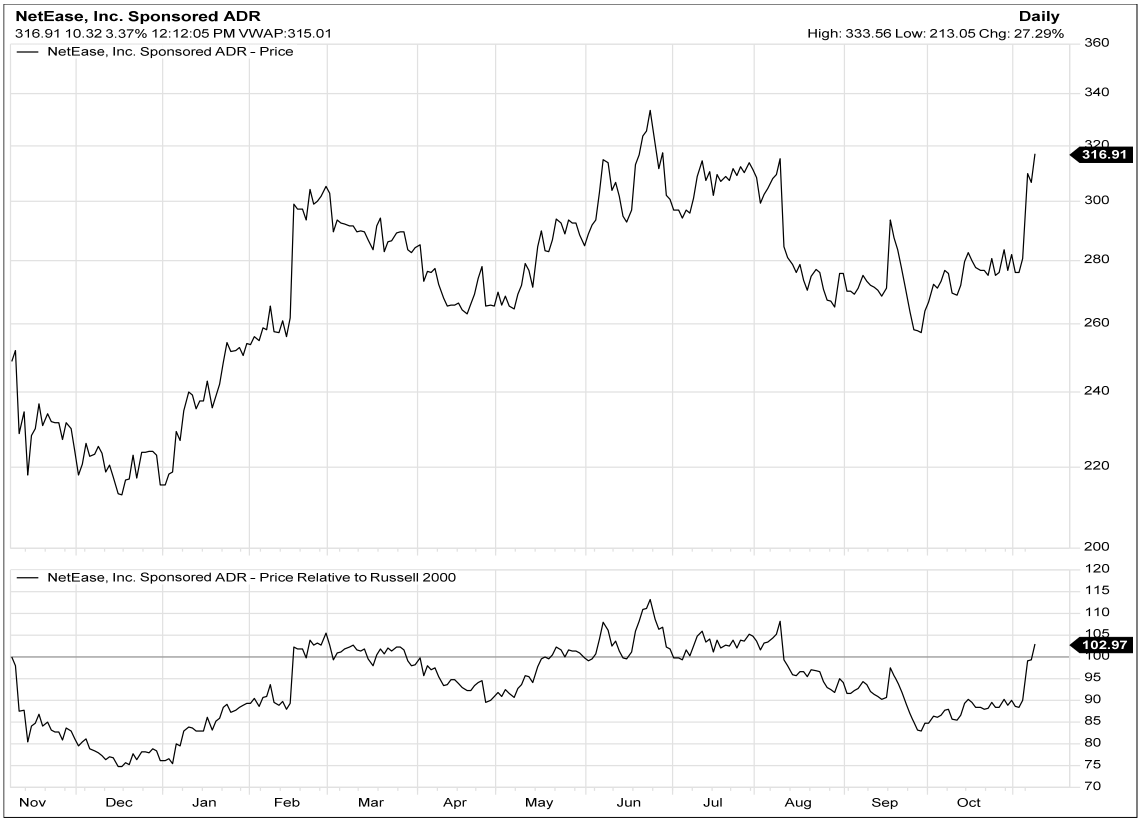
In order to reach an intrinsic value for NTES, a ten year DCF model was constructed. Using an averaged growth rate of 24.43% depreciating for the first seven years to a terminal growth rate of 2.00% for the remaining three, with a WACC of 13.57, an intrinsic value of $351.89 per share was reached. A sensitivity analysis was conducted using the terminal growth rate (1.50%-2.50%) and the WACC resulting in a range from $442.30-$285.74. A P/E multiple valuation using a comparables average P/E of 32.82x, and NTES's current EPS of $13.18 resulted in a valuation of $432.63. Finally, a P/B multiple valuation was calculated using the comparables average of 6.10x and NTES's current price of $315.00 resulting in a valuation of $446.86 per share. By weighting the three valuation models 70/15/15, a price target of $378.25 was reached representing a 20.08% upside. NTES pays a 1.3% dividend.

Risks

- **Potential Business Volatility.** The online game market that NTES generates the majority of its revenues from can be unpredictable as user's tastes can change quickly. Additionally, due to the limited history of the market for online games in China, NTES cannot at this time consistently estimate the total life cycle or popularity of any of its PC or mobile games. If the company fails to maintain the popularity of its existing games or cannot successfully introduce new ones it would affect revenue and profitability drastically.
- **Reliance on Third Party Distribution.** In addition to its proprietary distribution channels NTES publishes its mobile games through the Apple iOS App Store and other similar platforms. Consequently, NTES is subject to these third parties' terms and conditions regarding promotion, distribution and operation of its games. Should any substantial changes occur in these distributors terms or if the services decline in popularity NTES would be negatively impacted.

Management

William Ding is the CEO and founder. He has previously held the roles of Chief Architect, COO and Chairman of the Board of Directors. He is a graduate of the University of Electronic Science and Technology of China. Zhaoxuan Yang is the CFO and joined the company in 2017. Prior he was an executive director of the China TMT and Corporate Finance Division at JP Morgan Securities Asia Pacific in Hong Kong.



Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/ Equity	Est 5 yr NI growth
NetEase ADR	NTES	5,735.23	32.01%	21.21%	10.44%	37.70%
Activision Blizzard	ATVI	6,689.00	11.16%	6.52%	46.96%	12.10%
Alibaba	BABA	23,522.00	43.55%	17.71%	92.82%	27.40%
Sina	SINA	1,225.30	5.41%	3.09%	28.83%	70.90%
Tencent	700-HK	28,019.90	31.87%	15.45%	42.92%	33.40%
YY ADR	YY	1,389.45	30.35%	16.93%	42.85%	47.20%
Peer Averages		12,169.13	24.47%	11.94%	50.88%	38.20%

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/ EBITDA	P/B
NetEase ADR	NTES	41,347	7.21	18.83	16.09	4.30
Activision Blizzard	ATVI	46,092	4.00	21.57	17.52	2.29
Alibaba	BABA	481,800	16.40	39.00	50.93	8.30
Sina	SINA	7,699	6.28	33.33	24.86	2.10
Tencent	700-HK	458,944	10.56	37.40	41.51	10.21
YY ADR	YY	5,067	2.89	16.68	13.71	7.60
		199,920	8.03	29.60	29.71	6.10

Source: FactSet

Cemex S.A.B. de C.V. Sponsored ADR (CX)
November 10, 2017

Kevin T. Blank International Industrials

Cemex SAB de CV (NYSE:CX) is a Mexican multinational building materials company. Cemex engages in the construction industry through the manufacture and distribution of cement, ready-mix concrete, and aggregates (sand, gravel, asphalt) in more than 50 countries. Cemex operates in the following regions United States (28% of total sales), Europe (25%), Mexico (22%), South, Central America and the Caribbean (13%), and Asia, Middle East, and Africa (12%). Cemex was founded by Lorenzo Zambrano Gutierrez in 1906 and is headquartered in San Pedro Garza Garcia, Mexico.

Price ($):	8.08
Price Target ($):	10.66
52WK H-L ($):	10.37 - 6.91
Market Cap (mil):	11,506
Insider Holdings	-
Avg. Daily Vol (mil):	8.7
Yield (%):	0.0
ESG Rating	BB

Beta:	1.50
M-Term Rev. Gr Rate Est:	4.0%
M-Term EPS Gr Rate Est:	23.1%
Debt/Equity:	137.4
Debt/EBITDA (ttm):	5.08
WACC	10.82%
ROA (%):	3.10
ROE (%):	10.26
ROIC (%):	8.29

FY: Dec	2016	2017E	2018E	2019E
Revenue (Mil)	13,468.80	13,738.17	14,287.70	14,859.21
% Growth	-4.9%	2.0%	4.0%	4.0%
Oper Inc	1,892.97	1,840.91	1,879.39	1,961.42
% Growth	13.1%	-2.7%	2.1%	4.4%
Op Margin	14.1%	13.4%	13.2%	13.2%
EPS	$0.48	$0.46	$0.61	$0.67
P/E (Cal)	15.6	17.3	13.1	12.0
EV/EBITDA	9.3	8.8	9.0	8.8

Recommendation

Cemex SAB de CV is a global building materials company that provides high-quality products and reliable services to more than 50 countries and maintains trade relationships in over 100 nations. Mexico and the United States, which represent 22% and 28% of revenue, have recently been affected by natural disasters which has resulted in a decrease in product volumes. In the US, cement, ready mix, and aggregates have decreased 7%, 4%, and 8% YoY, respectively. In Mexico, cement prices increased 5% YoY, and the natural disasters affected construction output, yielding a decrease in product volumes of cement, ready-mix, and aggregates by 10%, 6%, and 4% YoY. The reconstruction efforts in Mexico and the US should add double-digit EBITDA growth in 2018. Additional demand for cement volume in Mexico includes the new international airport in Mexico City (Nuevo Aeropuerto Internacional de la Ciudad de Mexico). This airport is Mexico's largest infrastructure project and Cemex is supplying approximately 1.2 million cubic meters of concrete for the terminal building and additional runway. In the US, additional demand likely will be announced from infrastructure investments from state and local governments and Cemex has released increased prices in the U.S. in all states except Texas and Arizona. In Q3, a marginal increase of 1.3% YoY in net income was driven by lower financial expenses, the sale of interest in Grupo Cementos de Chihuahua, and positive impact on taxes. The sale of remaining interest in Grupo Cementos de Chihuahua is related to a gain of equity derivatives and common stock, with total proceeds of $168 million. The gain was used to repay debt and other general purposes. During Q3, CX entered into a new facilities agreement for $4.05B under enhanced conditions, extending the average life and reducing the cost of debt. Additionally, Standard & Poor's upgraded their corporate credit rating from BB- to BB, with stable outlook. CX has lowered total debt by ~$5.2 billion since the end of 2014. Cemex has been continuing their efforts in deleveraging the company by repaying debt with strong FCF generation and divestitures. Lastly, Cemex has been implementing a "Value before Volume" strategy to focus on core markets, which has boosted EBITDA 13% YoY by focusing on attractive profitability levels and delivering consistent FCF. Driven by these factors, it is recommended that Cemex SAB de CV be added to the AIM International Equity Fund with a price target of $10.66, representing a 33% upside. CX does not pay a dividend.

Investment Thesis

- **Natural Disaster Impact.** The impact of earthquakes, hurricanes and heavy rains affected demand in Q3. Two earthquakes hit Mexico affecting quarterly volumes, the reconstruction of housing is one of the top priorities of the federal and local governments. It is estimated that the reconstruction efforts could translate to 500,000 tons of cement to be consumed in the next 12 – 18 months. Hurricane Maria affected the Puerto Rico operations slightly and Cemex has enough capacity and is best positioned to serve the Caribbean in the rebuilding process. In terms of the United States, Florida and Texas account for ~40% of the cement volumes. Pent-up demand and reconstruction efforts should translate into improved dynamics in upcoming quarters.
- **Profitability Set to Drive Strong FCF.** Management has noted several times that CX may be able to return cash to shareholders for the first time either through a cash dividend or a share buyback program. The "Value before Volume" strategy has enhanced value creation for customers and has allowed Cemex to focus on higher margin and less price sensitive customers. Management is also using FCF to repay debt and regain investment grade status. The strategic selling of assets reached $2B in 2016 and CX expects to reach their $2.5B goal by 2018 year end. The enhanced credit ratings should drive future interest from investors.
- **Growth in Industrial and Commercial Sector.** The FAST Act will invest $52.4B to repair roads, freeways, and bridges across California. Cement volumes are forecasted to grow ~4% next year. Current conditions have supported an increase in housing permits and construction spending. Building permits in the US have increased ~4.5% in 2017. Cement consumption growth in commerce, office, and lodging has increased ~5% YTD. Additionally, the rise of the middle class in Mexico continues to expand and the earthquakes hit middle-class neighborhoods. Building codes and reconstruction is needed.

Valuation

In order to reach an intrinsic value for Cemex, a five year DCF model was constructed. Using a terminal growth rate of 2%, WACC of 10.82 %, an instrinsic value of $9.36 was reached, representing a 16.98% upside. A sensitivity analysis on the terminal growth rate and WACC ranged from $ 9.08 – $11.04. Additionally, an EV/EBITDA multiple valuation was calculated using a historical average multiple of 8x, resulting in a valuation of $11.97. By weighing the valuation models 50/50, a price target of $10.66 was reached, which yields a 33% upside. CX does not pay a dividend.

Risks

- **High Leverage.** Cemex has a net debt to/EBITDA ratio of 3.9x. The company has reduced leverage and continued to improve their credit ratings. Variable rate debt accounts for 70% of total debt. The debt currency denomination breakdown is ~70% USD, ~23% EUR, and ~7% MXN.
- **Latin America Challenges.** In 2016, Cemex posted 40.8% of its revenues from emerging and frontier economies and 4.8% alone from Colombia. CX relies heavily on these markets, any obstacles which distract from the growth of their infrastructure would hurt the company as a whole. Colombia experienced a decrease in revenues of 6.4% YoY.
- **Geopolitical Environment.** Although Cemex has very strong relationships with their customers from US and Mexico, NAFTA and free trade agreement breakdowns, present risk for CX.

Management

Fernando Gonzalez, CEO, has been with the company for 28 years and has held various management positions globally, including President of Venezuela, Asia, South America and the Caribbean region, Europe, Middle East, Africa, and Australia region. Rogelio Zambrano Lozano, whom had been a board member for 27 years at the time, took over as Chairman of the Board in 2014. Jose Antonio Gonzalez, who joined the company in 1989, was named the CFO in May of 2014. The average tenure of management is 21 years with numerous year of industry expertise.

Source: FactSet

Peer Valuation

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Cemex SAB de CV Sponsored ADR	CX	13,248	10.3	3.1	137.4	22.3
HeidelbergCement AG	HEI	18,721	4.6	2.1	80.3	7.3
LafargeHolcim Ltd.	LHN	26,227	5.6	2.4	65.7	18.4
CRH Plc	CRH	12,314	9.5	4.0	62.6	20.7
Vicat-Ciments Vicat SA	VCT	3,960	6.2	2.9	58.8	5.1
Cementos Argos SA	CEMARGO	3,699	5.1	2.3	91.1	2.5
Peer Averages		12,984	6.2	2.8	71.7	10.8

Source: FactSet

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/EBITDA	P/B
Cemex SAB de CV Sponsored ADR	CX	11,506	0.90	15.62	10.07	1.26
HeidelbergCement AG	HEI	16,955	0.99	22.25	10.11	1.15
LafargeHolcim Ltd.	LHN	33,926	1.32	17.86	10.07	1.13
CRH Plc	CRH	22,627	0.96	19.70	10.77	1.92
Vicat-Ciments Vicat SA	VCT	3,432	1.18	22.46	10.98	1.35
Cementos Argos SA	CEMARGO	4,780	1.78	-	16.73	1.83
Peer Averages		16,317	1.24	20.57	11.73	1.47

Source: FactSet