

Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports Fall 2013

Date: Friday, November 8th | *Location:* AIM Research Room (488)
Presentation Times 3:15-4:30 p.m.

Join us in person, or considering joining us live at:

Connect to the LIVE meeting click the following link [via Blackboard](#) web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
Louie Moran	Orchid Paper Products	TIS	\$30.62	2
David Yarmulnik	MidSouth Bancorp	MSL	\$15.06	5
Chi Zhuang	Dominion Diamond Corporation	DDC	\$13.53	8
Mark Long	Banco Santander SA	SAN	\$8.83	11
Brendan Durkin	Manchester United	MANU	\$	14

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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Orchid Paper Products

November 8, 2013

Louie Moran

Consumer Staples

Orchid Paper Products Company (NYSE: TIS) is a manufacturer of tissue products serving the “at-home” tissue market. The Company produces bulk tissue paper, known as parent rolls, and converts parent rolls into finished products, including paper towels, bathroom tissue and paper napkins. It sells any remaining parent rolls to other converters who operate mainly in the “away-from-home” tissue converting business. The Company’s core customer base consists of dollar stores and other discount retailers. The Company’s products are sold primarily under customers’ private labels and under its brand names, such as Colortex, My Size, Velvet, Big Mopper, Soft & Fluffy, Tackle, Nobel and Care. In the year ended December 31, 2012, the Company 89% revenue was generated from the sale of converted products and 11% from the sale of parent rolls. The company is located and in Pryor, Oklahoma and has operated there since 1998.

Price (10/31/2013)	\$30.62	Beta	0.7	FY	2012 (A)	2013 (E)	2014 (E)
Price Target	\$36.00	WACC	7.67%	Revenue (mil)	\$100.82	\$115.00	\$120.75
52 WK H-L	\$18.85 - \$30.75	M-Term Rev Gr Rate Est:	3.00%	% Growth	3.05%	14.06%	5.00%
Market Cap (mil)	\$244.80	M-Term EPS Gr Rate Est:	13.64%	Gross Margin	22.39%	21.00%	21.00%
Float (mil)	5.9	Debt/Equity	18.40%	Operating Margin	14.00%	13.00%	13.00%
Short Interest (%)	6.88%	ROA	7.90%	EPS (Cal)	\$1.22	\$1.37	\$1.38
Avg. Daily Vol (K)	23.29	ROE	12.36%	FCF/Share	\$1.41	\$1.56	\$1.44
Dividends (Yr)	\$1.40			P/E (Cal)	16.74	22.36	22.20
Yield (%)	4.49%			EV/EBITDA	10.07	9.35	8.35

Recommendation

Considering the intensely competitive nature confined within the Consumer Staples sector, a company like Orchid Paper Products has begun to position itself to gain market share going forward. Specifically, a recent revamp of their facilities in 2010 has begun to pay for itself over the last year, allowing the company to improve margins as well as increase top line growth. These improving margins are offering a considerable amount of protection against the potential volatility than can occur on the top line if mid-stream consumers/ private label customers change their supplier. This has lead the company to generate considerable cash flow, which they generously return to their equity owners through attractive dividends. In 2012, product sales consisted of 53% from paper towels, 42% from bathroom tissue, and 5% from paper napkins. Considering the above factors, as well as points that will be touched on later in this report, it is recommended that Orchids Paper Products be added to the AIM Domestic Equity portfolio at a target price of \$36.00, offering a 17.6% percent upside, as well as a 4.5% dividend yield.

Investment Thesis

- Margin Growth supplementing Top Line growth:** The new paper machine began operations in 2006, and implementation was completed in 2010. This production mechanism has allowed the company to improve margins and develop up a wider product offering. The new machine has been very efficient historically, so much so that it has exceeded the demand of TIS’s converting facility (hinging upon demand), where the parent rolls are turned into the final products. This has resulted in the company selling its parent rolls, a tradable commodity, to other producers with production volume issues. While this isn’t as profitable as producing the item itself, it offers a way for TIS to fully utilize its production facility. As TIS continues to improve margins, enabling them to charge a lower unit price, I anticipate volume to increase leading to a converting facility and production facility volume convergence.

- **Mid and Upper – Tier product offerings:** TIS has made most of its historical profits using low – tier products packaged not only as their own brands but also under their customers’ private labels. New methods allowed by the implementation of the new machines allow the company to use higher quality craft fibers to make a better, higher priced product for consumers demanding these types of products. These products have been made and distributed since 2010, but there is still considerable untapped market share.
- **Drive Towards Diversification and New Revenue Channels:** TIS’s management has made it clear that it sees a great opportunity to reach new markets and private label customers. Combined with the driver above as well as the nature of the industry, if TIS is able to sell its excess volume that it currently sells in parent rolls in the commodity markets to private label consumers or retail outlets, its current foothold in the market could grow substantially.

Valuation

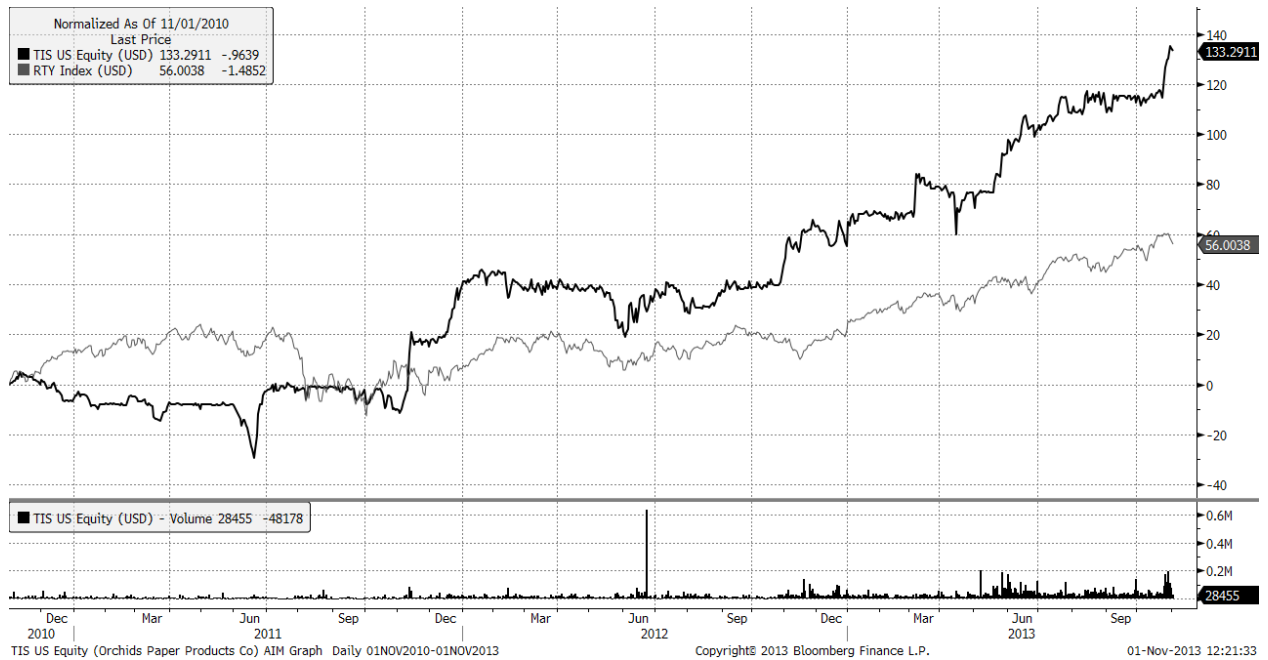
To value The Company, a 5 year DCF was used. Utilizing a WACC of 7.19%, a product of TIS’s low beta, an intrinsic value of \$36.29 was achieved. Stress testing was performed varying the WACC $\pm 1.5\%$ and year one cash flows $\pm \$3M$ leading to a intrinsic value range of \$28.41 – \$51.15. Additionally, a dividend discount model was executed, indicating that the value of the dividend alone was \$24.08. Due to the young age of TIS’s dividend, an assumption of no dividend growth was priced into the model. It is likely that the dividend will increase, but it is too early to predict a sustainable growth pattern. Stress testing performed tested a $\pm \$0.40$ year one dividend adjustment with a $\pm 1.5\%$ WACC adjustment gave a intrinsic value range of \$17.93 – \$34.97. As stated before, due to the uncertainty regarding potential dividend growth, the vast majority of the emphasis was placed on the DCF model. Ultimately, this emphasis resulted in an intrinsic value of \$36.00 (+17.6%).

Risks

- **Highly Competitive Industry:** As in most private label markets, there is very little to distinguish one company’s product to that of another. This is especially the case for the consumer tissue segment. Due to this lack of discrimination, cost is a major concern of customers. A major hiccup in production that would impact cost would either need to be absorbed by the company from its cash reserves, or passed on to the consumer, who may then change suppliers.
- **Reliance on Major customers:** A significant amount of TIS’s products are sold to Dollar General (47%), Family Dollar (15%), and Wal-Mart (14%). If any of these companies was to change its order volume a significant amount or unexpectedly TIS would be left without a major source of income.
- **Commodity pricing:** Although TIS hedges its energy costs as well as its input costs, a major change in the pricing of these items would certainly impact their production capability. These major commodity risks include natural gas, recycled fibers, and craft fibers.

Management

Robert Snyder, CEO and President, has been in this position since 2007. Before taking over, he has had a long career in various paper related businesses serving in multiple positions across the industry. Keith Schroeder, CFO, has also been with the company since 2007, and has served as VP of Finance and Treasurer of Global Tissue previously. Ultimately, the management team has a strong historical record not only in positions of management, but also have a considerable amount of experience within this industry.



Ownership	
% of Shares Held by All Insiders and 5% Owners:	6.83%
% of Shares Held by Institutional & Mutual Fund Owners:	33.30%

Source: Bloomberg

Top 5 Share Holders		
Holder	Shares	% Out
Taglich, Micheal N.	407,019	5.06%
Taglich, Robert F.	391,438	4.87%
Arnold, Edward H.	386,472	4.81%
Hillson Partners LP	382,036	4.75%
Perritt Capital Management	255,673	3.18%

Source: Bloomberg

MidSouth Bancorp (MSL)

November 8, 2013

David Yarmulnik

Financial Services

MidSouth Bancorp (NYSE: MSL) operates as the bank holding company for MidSouth Bank and Lamar Bank. The banks provide various banking services to commercial and retail customers in Louisiana and eastern Texas. It offers many deposit products and services, including interest-bearing and noninterest-bearing checking accounts, investment accounts, and cash management services, as well as many electronic banking services. MSL primarily focuses on its loan portfolio of \$1.1B, consisting of commercial and residential real estate loans (53.3%), commercial and industrial loans (30.2%), consumer loans (9.3%), and construction loans (7.2%). The bank has been able to increase its assets from \$9.3B in 2008 to over \$18.6B in 2013. MidSouth Bank was founded in 1985 and is headquartered in Lafayette, Louisiana with more than 600 employees and over 60 branches.

Price (\$): (10/31/13)	\$15.06	Beta:	1.2	FY: Jan	2012A	2013E	2014E
Price Target (\$):	\$19.94	WACC:	7.50%	Revenue (mil):	70.13	91.62	101.13
52WK H-L (\$):	17.44-13.93	M-Term Rev. Gr Rate Est:	8.00%	% Growth	5.05%	30.64%	10.38%
Market Cap (mil):	165.98	M-Term EPS Gr Rate Est:	6.00%	NIM	3.84%	4.75%	4.00%
Shares Out (mil):	11.3	ROA:	0.59%	Pretax Margin	19.14%	21.50%	21.50%
Short Interest (%):	1.28%	ROE:	5.84%	EPS (Cal)	\$0.77	\$1.14	\$1.38
Avg. Daily Vol:	14,371	Tier 1 Capital Ratio:	13.13%	BVPS	\$13.10	\$15.50	\$18.12
Dividend (\$):	\$0.32	LT Debt / Total Assets	1.59	P/B	1.25x	1.09x	1.12x
Yield (%):	2.10%			P/E (Cal)	19.37	12.80	12.15

Recommendation

MSL has been able to maintain a high quality financial position over the past several years, and has produced sustainable growth in recent years, which should continue. The bank has been able to significantly increase its footprint in Louisiana and Texas by acquiring branches and purchasing assets from struggling banks in that region. Since 2011, MSL has nearly doubled its number of locations from 33 to 61, and since 2008 the bank has increased its assets by over 100%. With a tier one capital ratio of 13.13% MSL is very well-capitalized, which has allowed it to acquire other banks without much leverage. MSL recently acquired two branches in Baton Rouge from Hancock Holding Company in an all cash transaction. Through expansion and acquisition, MSL has increased its loan portfolio over 40% since 2011 from \$746M to more than \$1.1B today. From this \$350M increase, approximately \$50M is from organic growth and \$300M is from acquisitions. Through the growth of its loan portfolio, MSL has been able to increase its net interest income significantly in the past year with TTM being 30% larger than 2012. Furthermore, MSL is able to maintain a very high NIM, currently at 4.75%, which is well above the industry average of approximately 3%. With its many acquisitions, well-capitalized structure, high NIM, and ability for growth, it is recommended that MSL be added to the AIM domestic equity fund with a target price of \$19.94, which offers a potential upside of 32.4%. The company also pays a dividend of \$0.32, which is a dividend yield of 2.1%.

Investment Thesis

- **Acquisitions and Expansion.** MSL is a well-capitalized bank and its many strategic acquisitions are designed to conservatively expand its reach as well as increase its presence in its existing areas. In early 2013, MSL completed a merger with PSB Financial Corporation, which enhanced the connection between Louisiana and Texas by expanding into central and northeast Louisiana and east Texas. MSL plans to grow both organically and through acquisitions, including potential expansion into new markets. The bank's current financial condition, coupled with their scalable operational capabilities allows MSL to act upon growth opportunities in the current banking environment.

- **Real-Estate Markets.** MSL loan portfolio consists heavily of commercial and residential real-estate loans at 50% of the portfolio mix. In addition, over 60% of the portfolio's loans have real estate as a primary or secondary component of collateral. In Louisiana and Texas, the economic environment is improving, housing prices are rising, and a lower rate of foreclosures has been observed. Housing prices have increased in Louisiana 2% this quarter and are expected to continue to rise, and vacancy rates have continued to decline to approximately 1.8%, slightly below the 1.9% national average.
- **Local Economies.** MSL is centralized in Louisiana and eastern Texas, and relies on the performance of the local economy. Currently Louisiana has an unemployment rate of 7%, which is below the national average of 7.2%. In addition, in Baton Rouge, where MSL has a large presence, the unemployment rate is 6.5%. The improving economic conditions, especially in these areas, coupled with the increased spending from the wealth effect, allow for MSL to maintain its strong performance.

Valuation

To find the intrinsic value of MSL a price to book multiple was used, as well as an excess equity model. The 5-year average historic price to book for MSL was 1.12x with its peer average being approximately the same with an average P/B of 1.11x. Weighting the historic average and the peer average the same, the P/B yielded an intrinsic value of \$20.25. The excess equity approach using a cost of equity of 9.64% and a long term growth rate of 3% resulted in an intrinsic value of \$19.64. Weighting these valuations 50/50, the final estimated intrinsic value of MSL is \$19.94, which provides an upside of over 32%.

Risks

- **Oil and Gas Industry.** MSL is heavily dependent on the oil and gas industry as many of their customers provide transportation and other services and products that support oil and gas exploration and production activities. Approximately 14% of MSL's loan portfolio is associated with oil and gas companies. This industry is subject to significant volatility, and a downturn in this industry will negatively affect MSL's performance.
- **Loan Portfolio Mix.** MSL's current loan portfolio has increased risk due to the relatively high concentration of commercial and industrial loans at over 30%. These loans generally carry larger loan balances and historically have involved a greater degree of financial and credit risks than residential mortgage loans. Repayment of commercial and industrial loans is often dependent on cash flow of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.
- **Increased Bank Regulation.** An increase in government regulation of banks has resulted in an increase in operating costs. Regulatory rules such as Dodd-Frank and Basel III created additional legal costs in order to comply with these new laws. These laws could result in material decreases in earnings and negatively affect operating margins. Increased regulations also make it more difficult for banks to plan future business activities due to the uncertainty of exact implementation of the enacted laws or the possibility of new future regulations.

Management

Rusty Cloutier has served as President and Chief Executive Officer of MidSouth Bancorp since its founding in 1984. He is the past chairman of the National Advisory Committee of Fannie Mae in Washington D.C. In addition, he is a former member of the Securities and Exchange Commission Advisory Committee on Smaller Public Companies, a former Director of the New Orleans Branch of the Federal Reserve Bank of Atlanta as well as the Energy Advisory Council and is currently a member of the Nominating Advisory Committee for the Federal Reserve Bank of Atlanta.



Source: Yahoo Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	28%
% of Shares Held by Institutional & Mutual Fund Owners:	40%

Source: Yahoo! Finance

Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Jacobs Asset Management, LLC.	591,351	5.26
Heartland Advisors, Inc.	510,603	4.54
Lord Abbett & Co.	474,072	4.22
Forest Hill Capital, LLC.	406,841	3.62
Endeavour Capital Advisors, Inc.	318,911	2.84

Source: Yahoo! Finance

Dominion Diamond Corporation (DDC)

November 8, 2013

Zac Zhuang

International Materials

Dominion Diamond Corporation (NYSE:DDC) is a Canadian diamond mining company with ownership interests in two of the world's most valuable diamond mines. The company operates the Ekati Diamond Mine through its 80% controlling interest, as well as a 58.8% in the surrounding areas containing prospective resource. It also sells diamonds from its 40% ownership interest in the Diavik Diamond mine. Both mines are located approximately 300 km northeast of Yellowknife in the Canada's Northwest Territories. Dominion is the largest publicly traded diamond mining pure play by market capitalization. The company supplies rough diamonds to the global market through its sorting and selling operations in Canada, Belgium and India and is the world's fourth largest producer of rough diamonds by value. DDC sorts and values its rough diamonds at its own facilities, and sells them directly to manufactures for cutting and polishing. Dominion Diamond Corporation is headquartered in Toronto, Canada.

Price (\$): (11/1/13)	\$13.53	Beta:	1.14	FY: Jan 31	2013A	2014E	2015E
Price Target (\$):	21.94	WACC	12.36%	Revenue (Mil)	\$345	\$820	\$963
52 WK H-L (\$):	\$17.02-\$11.94	M-Term Rev. Gr Rate Est:	31.57%	% Growth	19.06%	137.32%	17.49%
Market Cap (mil):	1,150.4	M-Term EPS Gr Rate Est:	38.16%	Gross Margin	22.53%	19.53%	23.46%
Float (mil):	79.6	Debt/Equity	0.3%	Operating Margin	13.80%	11.96%	15.89%
Short Interest (%):	0.2%	ROA:	2.08%	EPS (Cal)	0.42	1.21	1.21
Avg. Daily Vol (k):	320.7	ROE:	4.28%	FCF/Share	0.66	2.19	2.90
Dividend (\$):	\$0.00	2P Reserve(Mcts)	73.0	P/E (Cal)	32.4x	11.2x	11.2x
				EV/EBITDA	8.5x	3.6x	2.8x

Recommendation

Dominion Diamonds' roots reach back to the original discovery of Canadian diamonds in the 1990's. The company has a well-established relationship with customers and has the potential to create shareholder value in its new focus as a pure rough diamond producer. DDC's diamond market experts sell rough diamonds directly to manufacturers, tailoring parcels to the customer's needs. The customer-focused selling strategy minimizes the variation of stones in each custom parcel and generates a premium for DDC over prices charged by suppliers offering more variable parcels. Building production in a sector where rough supply is likely to be tight in the medium term should lead to a promising diamond-focused investor base. The rough diamond market has mirrored the polished diamond market with activity centered on lower price ranges while the market for higher end diamonds remain flat. It is evident that there is a shortage of supply in the lower price ranges of rough diamond inventory and it is expected that there will be upward pressure on the price of these goods as polisher restock. On the demand side of rough diamond, the market anticipates resurgence in the lead up to the Asian wedding and year-end holiday seasons. The company is trading at 0.63x NPV, appealingly underpriced relative to the company's size. Given the company's attractive valuation metrics due to its strong production and revenue profile, it is recommended that DDC be added to the AIM International Fund with an upside of 62.2%. DDC does not pay dividends.

Investment Thesis

- **Strong production and revenue profile.** Subsequent to the acquisition of Ekati mine from BHP, the company now has a total reserve of 73 million carats (53.4 of Diavik and 19.6 of Ekati). Based on company's guidance and production outlook, Dominion's diamond production is expected to peak at almost 12Mcts before declining at the end of Ekati's mine life, whose production is expected to end in 2019 supported by probable reserves. Consequently, this will result in revenue peaking at almost \$2 billion in 2016/17. This profile keeps DDC in the first place regarding diamond production and topline growth versus all listed peers. Higher revenues

will also result in significant levels of cash generation that place DDC on strikingly attractive forward EV/EBITDA multiples of less than 1x by 2016/17.

- **Potential catalyst of mine life extension.** The short mine life of Ekati is the main drawback of Dominion's production, but Dominion has the ability to develop the Jay kimberlite at Ekati. Jay pipe is considered the most significant prospect with the largest resource of diamonds in North America known to date. Indicated mineral resources at over 36M tons and 78Mcts would represent approximately 10 years of added mine life at current production rate. The development of the Jay kimberlite at Ekati could increase Dominion's NPV by 23% per share. It is estimated that this project will cost \$1.3 billion. Given the fact that Dominion is effectively ungeared, it has plenty of borrowing capacity to cover mine life extension costs.
- **Favorable market condition.** Both on the production side and on sales side, Dominion is well positioned to capture the profitable opportunities. Based on the 2012 ranking of the global diamond mines revenue per ton, Canada's mines are amongst the highest-ranking group. Five out of the top ten mines in the world are owned by Dominion. The core commercial diamond market remains focus of the retail growth, both in U.S. and China. A large part of the Diavik and Ekati productions are well suited to fulfill this demand.

Valuation

In order to reach an intrinsic value for DDC, a net asset value model was conducted. By measuring the current reserves of Ekati and Diavik mines and using a 7% discount rate, an implied equity value of \$21.43 was obtained. Additionally, a five year discounted cash flow model was conducted. A price target of \$26.23 was achieved by using a terminal growth rate of 2% and a WACC of 12.36%. Finally, an EV/EBITDA relative valuation model was conducted, which delivered a price target of \$21.73. By weighing the NAV model 80%, DCF model 10% and EV/EBITDA valuation 10%, a price target of \$21.94 was established. The price target represents a striking upside of 62.2%.

Risks

- **Fluctuation in diamonds prices.** The company's financial results are tied to global economic conditions and their impact on levels of consumer confidence and consumer spending. Volatility in diamond prices caused by a volatile macro environment could be detrimental to the investment thesis. Slower than expected economic growth and weakening sentiment will have a subsequent effect on rough diamond prices, which will have a direct adverse impact on the NAV model.
- **Margin pressure.** Exploration cost, particularly underground mining cost ramp up could impair margins subsequent to the Ekati acquisition. Along with the mining progress, diamond grades reduction could result in a decrease of revenue. Diamonds are sold throughout the world based principally on the US dollar price, but a majority of the costs and expenses of DDC's mineral properties are incurred in Canadian dollars. The company's currency exposures relates to expenses and obligations incurred by it in Canadian dollars. Margins could weaken if costs are not offset by higher revenue per carat.

Management

The chairman & CEO of Dominion Diamond Corporation, Bob Gannicott has been served as a director since the company's inception in 1992. He was appointed President and CEO in September 1999, and Chairman and CEO in July 2004. Mr. Gannicott has worked extensively in the Northwest Territories and Greenland as a geologist. Wendy Kei joined DDC in 2004 and was appointed CFO for the Mining Division in 2011. Prior to joining DDC, she held various senior management roles with PricewaterhouseCoopers LLP and Sunoco Inc. Chantal Lavoie joined DDC in July 2013. He is a mining engineer with over 25 years of experience in open pit and underground mining.



Ownership

% of Shares Held by All Insider & 5% Owners:	1.37%
% of Shares Held by Institutional & Mutual Fund Owners:	80.5%

Top 5 Shareholders

Holder	Shares	% Out
M&G Investment Management Ltd.	16,628,400	19.57%
BlackRock	7,531,815	8.86%
Oberndorf (William E)	4,242,601	4.99%
Steinberg Asset Management LLC	3,083,651	3.63%
RBC Global Asset Management Inc.	2,924,527	3.44%

Peer Group

Name	EV/EBITDA
Lucara Diamond Corp	5.6x
Mountain Province Diamonds	n/a
Gem Diamonds LTD	2.1x
Petra Diamonds LTD	5.3x

Source: Thomson One & Bloomberg

Banco Santander SA (SAN)

November 8, 2013

Mark D. Long

International Financials

Banco Santander (NYSE ADR: SAN), headquartered in Santander, Spain, provides Commercial Banking, Retail Banking, Asset Management, Private Banking, and Global Investment Banking to clients and customers on a global basis. Named 2012's best bank in the world by Euromoney and 43rd out of 2000 largest banks by Forbes Global, SAN is able to effectively meet every client and customer's needs through its 14,400 branches spread across ten target countries. The geographical revenue segments are separated by Continental Europe (33%), United Kingdom (15%), Latin America (45%), The United States (4%), and Corporate Activities (3%).

Price 11/1/13 (\$):	8.83	Beta:	1.609	FY for December 31	2012A	2013E	2014E
Price Target (\$):	12.45	Cost of Equity:	85.50%	Net Interest Income (\$M):	2,827.34	4,947.84	11,132.65
52 Week L-H:	6.31-9.32	M-Term Rev. Growth Rate Est:	9.00%	% Growth:	-10.37%	14.96%	125.00%
Market Capitalization (B):	17.60	M-Term EPS Growth Rate Est:	2.91%	NIM (%):	2.83	2.60	2.97
Float (M):	9.62	Financial Leverage:	5.53x	EPS (\$):	0.33	0.44	0.69
Average 10 Day Volume (M):	6,420	ROA (FY 2013):	0.29%	BVPS (\$):	12.49	12.25	12.20
Loan Loss %:	14.91%	ROE (FY 2013):	4.45%	P/B:	0.75	0.78	0.81
Dividend (\$ Qtrly):	0.61	Tier-1 Capital Ratio:	11.17	P/E:	26.44	27.53	28.46
Dividend Yield:	8.30%	Credit Rating:	BBB+	Div. Per Share (\$):	0.77	0.79	0.82

Recommendation

With \$1.75 trillion in assets, Banco Santander is the largest bank in the Eurozone and one of the 13 largest banks in the world in terms of assets. SAN is a valuable stock, based on its following drivers: rebranding efforts in the United States, the strong loan to deposit ratio just reported within the past year, and the possible acquisition of Bank Gospodarki Zywnosciowej SA (or "BGZ Bank"). Given Banco Santander's various business segments, it has the market capital, assets, and global workforce that can enhance every client's needs. SAN has proven that it has the ability to keep competing as a global bank, given its survival of Spain's recent financial crisis. Given the ability of Banco Santander to have a healthy balance sheet and strong consumer segments with many of these regions growing, or having room for potential growth, it is strongly recommended that this global banking institution, SAN, be added to the AIM International Equity Fund. With the possible addition of SAN to the AIM International Equity Portfolio, we are positioning ourselves to have greater exposure to the growing European markets post-financial crisis. We estimated a target price of \$12.45, which offers a potential upside of 40.95%. Furthermore, the company has a dividend yield of 8.30%.

Investment Thesis

- Rebranding in the United States.** With the acquisition of Sovereign Bank on the East Coast in 2009, Banco Santander has decided to eliminate its history with Sovereign Bank and rebrand each bank with its company name. This acquisition should prove interesting and beneficial. The recognition by its Spanish name commenced in October. This rebranding will help consumers easily identify the bank as a Global Fortune 2000 bank, building its reputation over time. With management's desire to grow in the United States, this will open the way for the bank to become more competitive with its commercial banking on the East Coast. With only 4% of its revenues coming from the United States, this bank is helping to create an easier expansion to other regions of the United States going forward. This situation can be seen as a similar tactic used by the conversion of National City to PNC Bank back in 2010.
- Loan to Deposit Ratio Strong.** A bank tries to fund as much of its loans as possible using low-cost deposits. The more loans that can be financed with deposits, the better will be the net interest margins enjoyed by the bank. What we are seeing with Banco Santander is that, over the

past three years, the ratio of loans to deposits has improved. With the company's Chairman dedicating his efforts to continually improving this margin, loans will be a little more selective in the future, thereby allowing slightly more limited amount of loans to be outstanding, with an emphasis on less risky loans, over time.

- **Possible Acquisition of BGZ Bank.** Recently, Rabobank announced the sale of BGZ Bank. With 7% of Banco Santander's profits stemming from Poland, BAN is looking to further expand into Poland. Given that BGZ Bank is the 11th largest bank in Poland, this acquisition would help grow its commercial banking presence in Poland, while being able to work with its present assets already established in Poland.

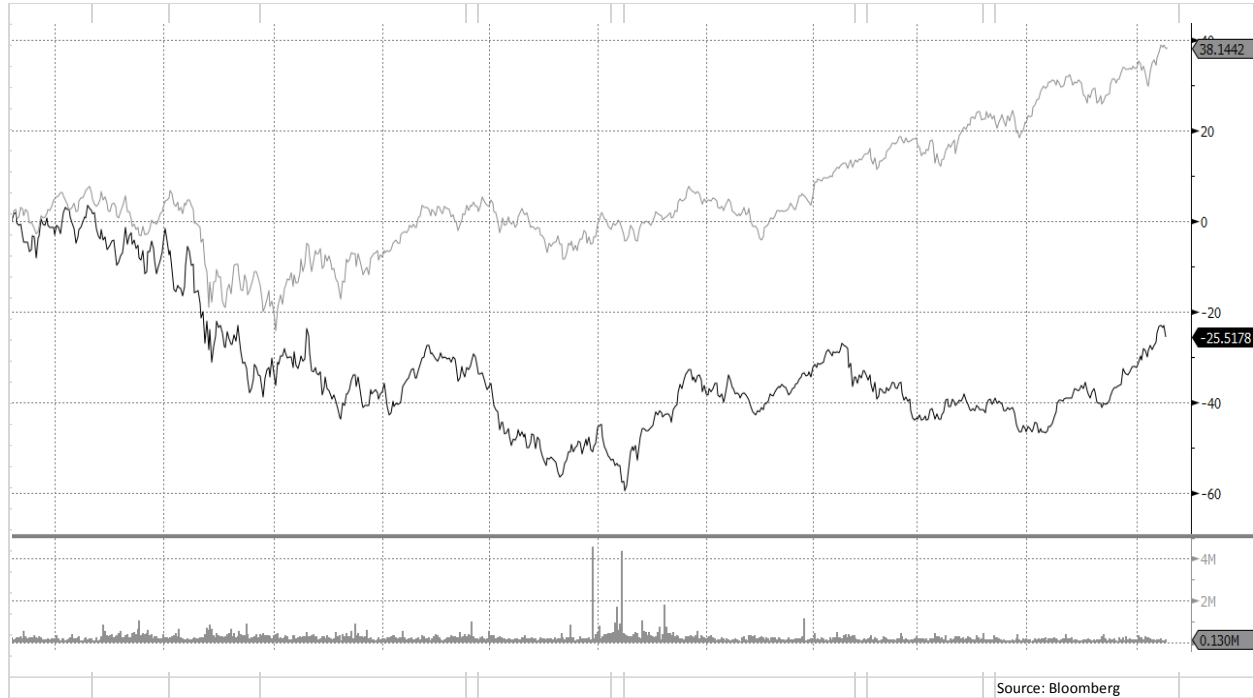
Valuation

A combination of an Excess Equity Return Model, a P/B Multiple Ratio Model, and a Discounted Dividend Model was performed to find the intrinsic value of Banco Santander. With a 50% weight on the Excess Equity Return Model, a 30% weight on the Discounted Dividend, and by weighing 20% by loading net income projections and a CAPM of 14.96% from 2013-2017, a value of \$9.73 was computed. When computing the BVPS, an intrinsic value of \$20.44 was estimated, also using a 20% weight for this model. Combining the two valuations, a price target of \$12.45 was calculated, offering a 40.95% appreciation from the current price of \$8.83. The company also has a dividend yield of 8.30%.

Risks

- **Contingent on Financial Health of Major Consuming Countries.** Roughly 33% of Banco Santander's business is affected by the consumer base in the European Union. In addition, Latin America accounts for 45% of SAN's business. Brazil is currently experiencing high inflation rates. Financial instability in Latin America could also affect SAN's bottom line. An economic uncertainty in Europe, the United Kingdom, or Latin America could have an adverse effect on SAN's business lines.
- **Increasing Loan to Deposit Ratio.** The Company's Chairman has gone on record saying that he wants the ratio of loans to deposits gradually to shrink, over time. If this is not accomplished, SAN could see its profit margins shrink, as more expensive financing is needed to fund new loans.
- **Negative Reception to Banco Santander Brand in U.S.** Many residents on the East Coast have been banking with Sovereign Bank for many years, even generations. A lack of trust in the brand, or poor marketing efforts to transition to the Banco Santander brand, could disrupt deposits from customers and the commercial banking aspects of the business. This, in turn, could hinder its future growth in North America.

Javier Marin Romano currently serves at CEO of Santander Group and has been with the bank since 1991. Mr. Romano took over the position after Alfredo Abad's resignation in late April. Emilio Botin has served as the Executive Chairman of Banco Santander SA since 2007. Emilio Botin has had plenty of experience controlling the bank since he was named Head of Banco Santander. Emilio Botin has plenty of experience with economic crisis, including the most recent downfall of the Spanish economy. Emilio Botin's daughter, Ana Patricia Botin, is currently the President of Banco Santander UK since December 2010, having received her MBA from Harvard and originally serving as President of Banesto. It is widely speculated that Ana Botin will take over her father's position when he retires, which is likely to be soon, as Emilio Botin is at the seasoned age of 79.



Ownership

% of Shares Held by All Insider and 5% Owners:	N/A
% of Shares Held by Institutional & Mutual Fund Owners:	N/A

Source: Yahoo! Finance

Top 5 Shareholders

<u>Holder</u>	<u>Shares Outstanding</u>	<u>Outstanding</u>
Vanguard International Stock Index	15,895,045.00	0.14%
Bank of America Corporation	12,181,325.00	0.11%
Macquarie Group Limited	9,047,289.00	0.08%
Aristotle Capital Management, LLC.	7,401,547.00	0.07%
Commerzbank Aktiengesellschaft	7,019,248.00	0.06%

Source: Yahoo! Finance

Manchester United (MANU)

November 8, 2013

Brendan Durkin

International Consumer Discretionary

Manchester United plc (NYSE:MANU) is a professional soccer team in Manchester, UK that is widely regarded as one of the most successful and popular sports teams and brands in the world. MANU generates revenue through its Commercial segment, which includes sponsorships, merchandising, product licensing and new media & mobile revenue (42%), matchday revenue (30%), and broadcasting revenue (28%). Some global sponsors include Aon, General Motors and Nike. Manchester United was founded in 1878 and is based in Manchester, United Kingdom.

Price (\$) (11/1/2013)	16.08	Beta:	1	FY: December	2013A	2014E	2015E
Price Target (\$):	18.90	WACC	7.0%	Revenue (Mil)	569.78	672	773
52WK Range (\$):	12.27-19.34	M-Term Rev. Gr Rate Est:	8.0%	% Growth	12.29%	18.00%	15.00%
Market Cap:	2.7 B	M-Term EPS Gr Rate Est:	8.4%	Operating Margin	10.98%	18.00%	19.00%
Float	16.80M	Debt/Equity	94.6%	EPS (Cal)	\$1.41A	\$0.30E	\$0.43E
Short Interest	7.54%	ROA:	14.16%	FCF/Share	0.43	0.13	0.06
Avg. Daily Vol:	52,192	ROE:	42.70%	P/E (Cal)	11.40	53.66	37.68
Dividend (\$):	N/A						
Yield (%):	N/A						

Recommendation

Manchester United is one of the most popular and successful sports teams in the whole world. They are playing a sport with growing popularity that is already widely considered the world's most popular spectator sport. MANU has an estimated fanbase around 636 million, or twice the population of the United States, and still has yet to capitalize on the market demand they could potentially fill. MANU also recently bought out the remaining 1/3 stake in MUTV, its broadcasting segment, and expects to see higher revenue from there as well. A new broadcasting rights contract was signed for the next three seasons that will increase the value of domestic and international broadcast rights by approximately \$2.415 billion, of which MANU receives varying percentages based on how the team performs on top of a stated rate to be paid. The company's goal is to expand the high growth business that leverages its brand. Commercial revenue has grown at a CAGR of 21.4% over the past three years and is expected to be MANU's source of growth going forward. Sponsorship deal revenue increased over 40% this year as well, in part to their increased exposure to new deals through technology, and also due to the company's goal to increase regional sponsorships in underpenetrated areas. Sponsorship revenue has grown from \$65.85 million in FY 2010 to \$146.39 million in FY 2013, and does not include MANU's most lucrative partnership, Nike. MANU retains control of the use and monetization of its intellectual property rights worldwide in the areas of retail, merchandising, apparel & product licensing and has it managed by Nike, which is in the 12th year of a 13 year contract. Nike incorporated a subsidiary, Manchester United Merchandising Limited (MUML), which deals with MANU licensing and merchandising and splits its revenue 50/50 with Nike and MANU above their contractual stated terms. MUML has over 200 licensees in 120 countries. With the potential for growth in its commercial segment, and the steady cash generation from its broadcasting and matchday revenues, it is recommended that Manchester United be added to the AIM international equity portfolio with a target price of \$18.90, yielding a potential upside of 17.51%.

Investment Thesis

- Growth in Commercial Revenue.** Overall revenue increased 13.4% last year and most was in part to strong commercial revenue improvement. MANU plans to develop new sponsorship opportunities in sectors where they do not have a lot of selected sponsors already. MANU derived a big portion of sponsorship revenue in 2012 from its shirt deal with Aon worth \$32.3 million a season, after this year they have signed a new deal with General Motors to receive \$70 million a season beginning in 2014 and running through the 2020/2021 season, increasing at a rate of

2.1% a season. With higher sponsorship revenue and new revenue generation sources, MANU looks to increase margins with somewhat fixed costs to running the team regarding contracts and team expenses. Although the company is experiencing an increase in recent expenses due to the expansion in Hong Kong and the US, strong business growth and revenue will offset these to continue the growing trend.

- **Expansion into Hong Kong and US.** MANU is aiming to take advantage of underpenetrated markets in Hong Kong and the US to grow the commercial arm of its business. These offices will look to target new regional and global sponsorships and also look for new ways to monetize the brand and bring in new revenue sources. The office in Hong Kong was opened in 2012 and the US office is set to open in 2014.
- **Changing Industry creating new revenue opportunities.** Specifically in the media and mobile revenue segment of its commercial arm, the emergence of soccer as one of the top spectator sports in the world coupled with the increase and availability of technology in a growing number of countries has allowed for MANU to increase its exposure in different revenue producing platforms such as social media and applications. The sport is also gaining popularity around the globe and MANU hopes to enhance its reach and distribution of broadcasting rights through MUTV to generate additional revenue on top of the 80 countries they already deliver Manchester United programming to around the world. Increase in brand recognition and worth accompany new business contracts entered into by these offices in emerging markets for the company and industry as a whole.

Valuation

To find the intrinsic value for MANU, a ten year discounted cash flow model conducted. A terminal growth rate of 2.5% and a WACC of 7% were used, the resulting DCF valuation yielded an intrinsic value of \$19.68. An EV/Revenue comparables multiple was also used, using an industry averager of 4.8x. Blending them 50/50, the resulting intrinsic value found was \$18.90 – a potential 17.51% upside. MANU does not pay a dividend.

Risks

- **Business and brand are dependent on performance.** Much of the success and future growth MANU looks to capture depends on the team's ability to impress and retain top talent. The main source of a global brand image is winning and attracting the top players in the world, which is not always the case in sports. Top players can decline contract extensions and offers to play for rivals at a higher cost.
- **Sponsorship and merchandising deals are finite.** MANU has many lucrative sponsorships and revenue deals with different companies, but all of these contracts have a definite end and are not guaranteed to be re-signed at the same or greater terms, there is a chance they will not pay as much or may not even re-sign at any cost.

Management

Avram Glazer and Joel Glazer are co-chairman and members of the family that bought Manchester United through Red Football Ltd before taking them public. Edward Woodward is the Vice Chairman and Michael Bolingbroke is the CEO and was previously Senior Vice President with Cirque du Soleil. The First Team's manager is David Moyes. This is the first year after replacing legendary head coach Sir Alex Ferguson.

Manchester United Ltd. Class A

MANU

Nov 04, 2013



Source: Yahoo! Finance

Ownership	
% of Shares Held by All Insider and 5% Owners	57.82%
% of Shares Held by Institutional & Mutual Fund Owners	42.18

Source: Yahoo! Finance

Top 5 Shareholders		
Holder	Shares	% outstanding
Red Football Ltd	23,019,033	57.82%
Banco Inc	4,461,438	11.21%
Blackrock	2,999,492	7.53%
Soros Fund Management LLC	2,968,097	7.46%
Lansdowne Partners LP	2,421,434	6.08%

Source: Bloomberg