Applied Investment Management (AIM) Program

AIM Class of 2017 Equity Fund Reports
Spring 2017

Date**:* Friday, February 18th | ***Time: *2:30 – 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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AZZ, Inc. (AZZ)
March 3, 2017

Sarah Hillegass Domestic Industrials

AZZ, Inc. (NYSE: AZZ) manufactures specialty electrical equipment and provides highly engineered services, such as galvanizing and welding, to power generation, transmission and industrial markets worldwide. AZZ has two operating segments: Galvanizing (45% of revenues, 23.6% OPM), and Energy (55%, 11.7%). The Galvanizing segment provides hot-dip galvanizing to the steel industry for metal finishing corrosion protection. The Energy segment manufactures equipment for the transmission of power and provides weld overlay solutions for corrosion and erosion mitigation on critical infrastructure. AZZ has 43 facilities in 50 locations across four continents: North America, South America, Asia, and Europe. AZZ was founded as Aztec Manufacturing in 1956, became AZZ, Inc. in 2000, and is headquartered in Fort Worth, TX.

Price ($): (2/27/17)	$60.15
Price Target ($):	76.95
52WK H-L ($):	68-49
Market Cap (mil):	1,561
Float (%):	49.96
Short Interest (%):	3.20%
Avg. Daily Vol (th):	149.97
Dividend ($):	0.68
Yield (%):	1.13%

Beta:	1.12
WACC	6.53%
M-Term Rev. Gr Rate Est:	6.00%
M-Term EPS Gr Rate Est:	7.00%
Debt/Equity:	67.95
Net Debt/EBITDA:	1.68
ROA:	8.00%
ROE:	17.04%
ROIC:	10.10%

FY: Feb	2015	2016	2017E	2018E
Revenue (Mil)	816.7	903.2	921.3	976.5
% Growth	8.6%	10.6%	2.0%	6.0%
Gross Margin	25.5%	25.5%	25.0%	25.5%
Operating Margin	13.6%	13.6%	13.0%	13.5%
EPS (FY)	$2.5	$3.0	$2.8	$3.3
FCF/Share	$2.8	$3.4	$2.9	$3.5
P/E (FY)	18.0	17.1	21.2	18.5
EV/EBITDA	9.5	9.3	9.9	9.0

Recommendation

AZZ's position as the largest post-fabrication galvanizer in North America and one of the largest producers in weld metal overlay services allows its product portfolio to diversify into many end markets. Nevertheless, fiscal year 2017 (February year-end) is shaping up to be one of AZZ's worst years of financial performance since the Great Recession – following fiscal year 2016 which saw record corporate sales. The galvanizing segment (-14% 3Q17 sales yoy) and the energy segment (-12% 2Q17 sales yoy) have suffered from low sales volume due to high refinery utilization rates with continued deferred maintenance pushed out into the spring of 2017. Additional softness in the petrochemical and solar markets have hurt sales further. To combat these end market volume headwinds, AZZ has made strides in focusing on its core competencies to improve and expand operational excellence, so as to continue its profitable 10 year CAGR revenue trend of 17.1%. In 2Q17 AZZ implemented restructuring charges in order to streamline its business processes. Additionally, AZZ's successful integration of its March 2016 Power Electronics, Inc. (PEI) acquisition has resulted in energy segment orders increasing by nearly 17% in 1Q17, 5.5% in 2Q17, and 3.8% in 3Q17, primarily through stronger international orders. AZZ is hoping to make other profitable acquisitions to its galvanizing business in order to restore segment operating margins to the 25% range, which management estimates will be achieved by the end of FY17. Due to AZZ's commitment to improving operational excellence during end market downturns, innovating new metal-finishing products for its galvanizing segment, and expanding international energy operations, AZZ will rebound from FY17 with easy FY18 comps. Therefore, it is recommended that AZZ Inc. be added to the AIM Equity Fund with a target price of $76.95, representing a 28% upside. AZZ pays a $0.68 annual dividend with a 1.13% yield.

Investment Thesis

- **Corporate Restructuring.** In 2Q17, AZZ implemented restructuring charges of $8M to improve both segments' margins and eliminate waste by benefitting from over $6M in reduced annual costs. The realignment charges related to the temporary shut-down of two significantly low margin plants in Mississippi and Texas, and the repurposing of a third plant in Oklahoma. Furthermore, in January 2017, AZZ finally settled its Nuclear Logistics (NLI) transaction. While the divestment to Westinghouse was cancelled, the two companies are teaming together to provide quality nuclear safety equipment and services. AZZ currently has follow-up contracts for China's Sanmen Nuclear Power Company, maintaining its status as the largest third-party supplier of nuclear safety equipment. The teaming agreement resolution allows AZZ to now focus on its vast acquisition pipeline. In management's 3Q17 conference call, they indicated that nearly three acquisitions were put on hold as resources were required to deal with the NLI settlement.

- **Metal-Finishing Complements.** With weaker sales from the solar and petrochemical markets, AZZ is expanding its galvanizing business into alternative corrosion protection services. In 3Q17, AZZ announced the introduction of a new product, GalvaBar. This product will be manufactured in the Oklahoma plant that was re-purposed in AZZ's restructuring initiative. GalvaBar differentiates itself as a concrete corrosion protector by allowing for formability. Current versions of concrete corrosion protection do not allow for this, which yields problems when concrete is installed in the field. AZZ expects this product to be a major growth driver for the infrastructure industrial end markets. As a result, management has mentioned that future facilities for the GalvaBar production will need to be acquired. Any potential infrastructure bills/investments by the federal government will help AZZ's business with this concrete corrosion protector as well as other galvanizing opportunities, particularly within the bridge and highway space.
- **International Energy Expansion.** Due to stable investment activity from U.S. electrical utility providers, AZZ has focused its energy expansion internationally. In 3Q17, AZZ entered into a joint venture in Saudi Arabia with Abdulrahman Ababtain Co., to capture market share with the production of high-voltage gas-insulated transmission lines. Additionally, as recently as February 17, 2017, AZZ announced that it won a contract with the China Three Gorges Corporation to provide six circuits of gas insulated lines for vertical shaft configurations. The estimated value of this contract is worth $27M for the hydroelectric power generation market.

Valuation

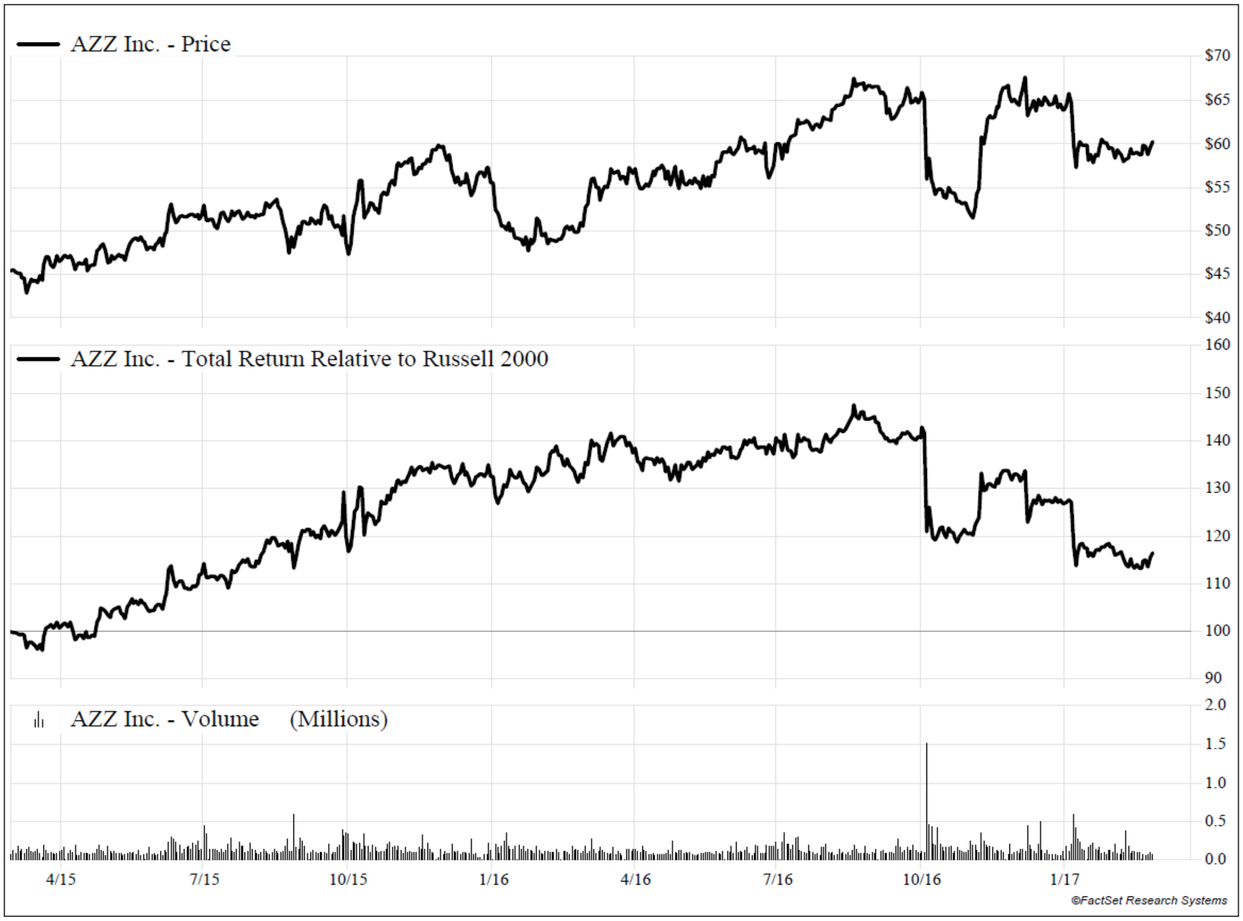
In order to reach an intrinsic value for AZZ, a five year DCF model was constructed. Using a terminal growth rate of 2.0% and a WACC of 6.53%, an intrinsic value of $74.22 was reached. A sensitivity analysis on the terminal growth rate of 50bps and WACC of 50bps ranged from $59.46-98.89. Additionally, a P/E multiple valuation was conducted using EPS NTM of $3.15 and a comparables average P/E of 23.75x, which resulted in a valuation of $75.22. Finally, an EV/EBITDA relative multiple valuation was calculated using EBITDA NTM of $168.84 and a comparables average EV/EBITDA of 12.93x, which resulted in a valuation of $84.13. By weighting the three valuation models 50/25/25, a price target of $76.95 was reached, which yields an 27.93% upside.

Risks

- **Zinc Variability.** Zinc is the primary component to AZZ's cost of goods sold as zinc is applied to steel to prevent corrosion in the galvanizing process. Higher zinc prices allow AZZ to capitalize on pricing for its own services. Currently, AZZ carries several months of zinc materials in kettles in inventory to allow for time to react to price fluctuations. AZZ also has fixed cost contracts with its zinc suppliers to guard against extreme zinc variability.
- **Delayed Refinery Turnaround.** AZZ's facilities are highly concentrated in the Texas/Gulf Coast regions in the U.S. FY17 has experienced decreased financial performance across both segments as refineries have continued to push out investments as long as their equipment continues to function. If minimal patch-work continues, rather than substantial volume improvement, AZZ's two segments will continue to suffer from lower gross margins. However, due to recent strong bidding activity, management believes the end of the investment push out is near, and refineries are finally beginning to substantially turnaround.

Management

Thomas Ferguson has been the CEO of AZZ since 2013. He was a Senior Vice President at Flowserve Corporation. Paul Fehlman has been the CFO of AZZ since 2014. He also previously worked at Flowserve as a Vice President – Finance. AZZ's ESG score is rated a B by MSCI.



Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	1.37%	▲
% of Shares Held by Institutional & Mutual Fund Owners:	>90.08%	▲

Source: FactSet

Top 5 Shareholders

Holder	Shares		% Out
BlackRock Fund Advisors	2,696,000	▲	10.39
The Vanguard Group, Inc.	2,189,000	▲	8.43
Fidelity Management & Research Co.	2,144,000	▼	8.26
T. Rowe Price Associates, Inc.	2,008,000	▲	7.74
Neuberger Berman Investment Advisors LLC	1,306,000	▲	5.03

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Margin (%)	FCF/Share	P/E	EV/ EBITDA
AZZ Inc.	AZZ	1,561	7.4%	4.0	23.8	9.3
Nichiden Corporation	9902-JP	499	7.4%	0.3	15.0	5.5
Sun Hydraulics Corporation	SNHY	1,030	16.5%	1.6	40.8	19.1
Powell Industries	POWL	384	3.0%	6.3	24.6	8.6
Henan Pinggao Electric	600312 -	3,282	17.4%	0.0	15.0	18.6
Peer Averages		1,299	11.1%	2.1	23.8	12.9

Source: FactSet

ConnectOne Bancorp, Inc. (CNOB)
March 3, 2017

Steven Hoffmann Financial Services

ConnectOne Bancorp, Inc. (NASDAQ: CNOB) is a bank holding company which engages in the ownership and control of ConnectOne Bank. The firm's product offerings include checking accounts, savings accounts, retirement accounts, and commercial and business loans primarily funded by relationship-based core deposit accounts. As of 12/31/16, CNOB had $4.4 billion in total assets and $3.3 billion in total deposits. CNOB's $3.6 billion outstanding loan portfolio consists of commercial real estate (62%), commercial (16%), commercial construction (14%), residential (7%) and consumer (1%). CNOB operates 28 branches in several northern New Jersey counties, the five boroughs of NYC, and Westchester and Nassau counties in New York State. The company was formerly known as Center Bancorp, Inc. and changed its name to ConnectOne Bancorp, Inc. as the surviving name of a July 2014 merger. ConnectOne Bancorp, Inc. was founded in 1982 and is headquartered in Englewood Cliffs, NJ.

Price ($): (02/28/17)	25.00
Price Target ($):	30.31
52Wk H-L ($):	27 - 14
Market Cap (mil):	830.50
Float:	93.30%
Short Interest (%):	2.90%
Avg. Daily Vol (000):	150.73
Dividend ($):	0.30
Yield (%):	1.20%

Beta:	0.99
WACC	6.50%
M-Term Rev. Gr Rate Est:	8.81%
M-Term EPS Gr Rate Est:	16.55%
Total Debt/Total Assets	11.99%
ROA:	0.74%
ROE:	8.80%
Tier 1 Capital Ratio	9.87%
Loan Loss Provisions/Loans	0.73

FY: Dec	2015A	2016A	2017E	2018E
Interest Income (Mil)	140.97	161.24	173.70	189.80
% Growth	47.59%	14.38%	7.72%	9.27%
Pretax Margin	43.44%	26.58%	41.82%	43.29%
Net Income Margin	29.31%	19.27%	27.80%	29.12%
EPS (Cal)	$1.36	$1.01	$1.61	$1.94
P/E (Cal)	22.29	30.01	18.83	15.61
BVPS	15.49	16.62	18.06	19.70
P/B	1.96	1.82	1.68	1.54

Recommendation

ConnectOne Bank has grown interest income at a 5-Yr CAGR of 25.4% and net income margin at a 5-Yr average of 24.6%. Despite this strong data, CNOB had an interesting end to 2016. With the rise in companies in NYC like Uber and Juno, taxi medallion loans have been a major element of uncertainty for CNOB. Management's decision to reclassify the entire loan segment (less than 2.0% of CNOB's total loan portfolio) as 'held for sale' and a 4Q16 sizable charge-off indicates that this issue has sufficiently been dealt with and that the commercial real estate loan portfolio can again be the focus for CNOB. In addition, a common stock offering in December 2016 of $38mm provided working capital to support additional organic growth and a provision against its taxi portfolio. On the real estate front, Marcus & Millichap (MMI) anticipates employment will increase during 2017 by 1.7% in the northern NJ region, adding 36,000 new jobs. Demand in the multifamily sector has pushed developers to bring more rental units to the area. MMI also reported that 8,500 units were built last year, up from 6,800 the year before. Lastly, Fed Chair Yellen stated that waiting too long to raise interest rates would be "unwise" as economic growth continues and inflation rises. Looking forward, organic loan growth and margin stability will enable CNOB to bring its ROA to back to around 1.1%, well ahead of peers with ROAs historically below 1.0%, warranting a higher valuation. Based on the continued opportunities for growth, strong local markets, and positioning for rising interest rates, it is recommended that CNOB be added to the AIM Equity Fund with a price target of $30.31, representing a potential upside of 21.23%. The firm also pays a dividend of $0.30, yielding 1.2%.

Investment Thesis

- **Strong Local Real Estate Markets.** CNOB's total loan portfolio consists heavily of commercial real estate loans (62% of portfolio). Commercial real estate loans include loans secured by first liens on completed commercial properties, including multi-family properties, to purchase or refinance such properties. At the U.S. level, a 7% increase for the commercial and multifamily total in 2016 was the result of an 11% advance for commercial building and a 3% gain for multifamily housing. According to MMI, demand for rental housing in the northern NJ region is expected to maintain low vacancies and lead to a 5.2% increase in rents this year; strong market economic indicators will lead to a surge in prices, attracting more investors to the market.

- **Refocusing Business Strategy.** In July 2014, CNOB announced the completion of its merger with Center Bancorp. In addition to more than $7mm in synergies, this merger increased CNOB's loan portfolio by 2.5x, assets by 2.0x and deposits by 1.9x. Less than 2.0% of CNOB's loan portfolio is tied to taxi medallions in NYC. Recent 4Q16 charge-offs and reclassifying this part of the portfolio to be held for sale coupled with a $38mm common stock offering signals that management may be deploying a kitchen sink strategy this quarter. The added scale and resources from the merger along with its refocus on commercial loans will return CNOB to the most profitable community bank in the region.
- **Rising Interest Rates.** Current expectations are high that the Fed will raise interest rates at the June 2017 meeting and it is likely that rates could increase twice before the end of 2017. After long periods of historically low rates, CNOB has carefully managed its asset-liability sensitivity to interest rates. An internal net interest income (NII) simulation attempted to measure the change in NII over the next one-year period; it was estimated that a 200 basis-point instantaneous increase in the general level of interest rates would increase CNOB's NII by 5.7% and a 100 basis-point instantaneous increase in interest rates would NII by 2.6%.

Valuation

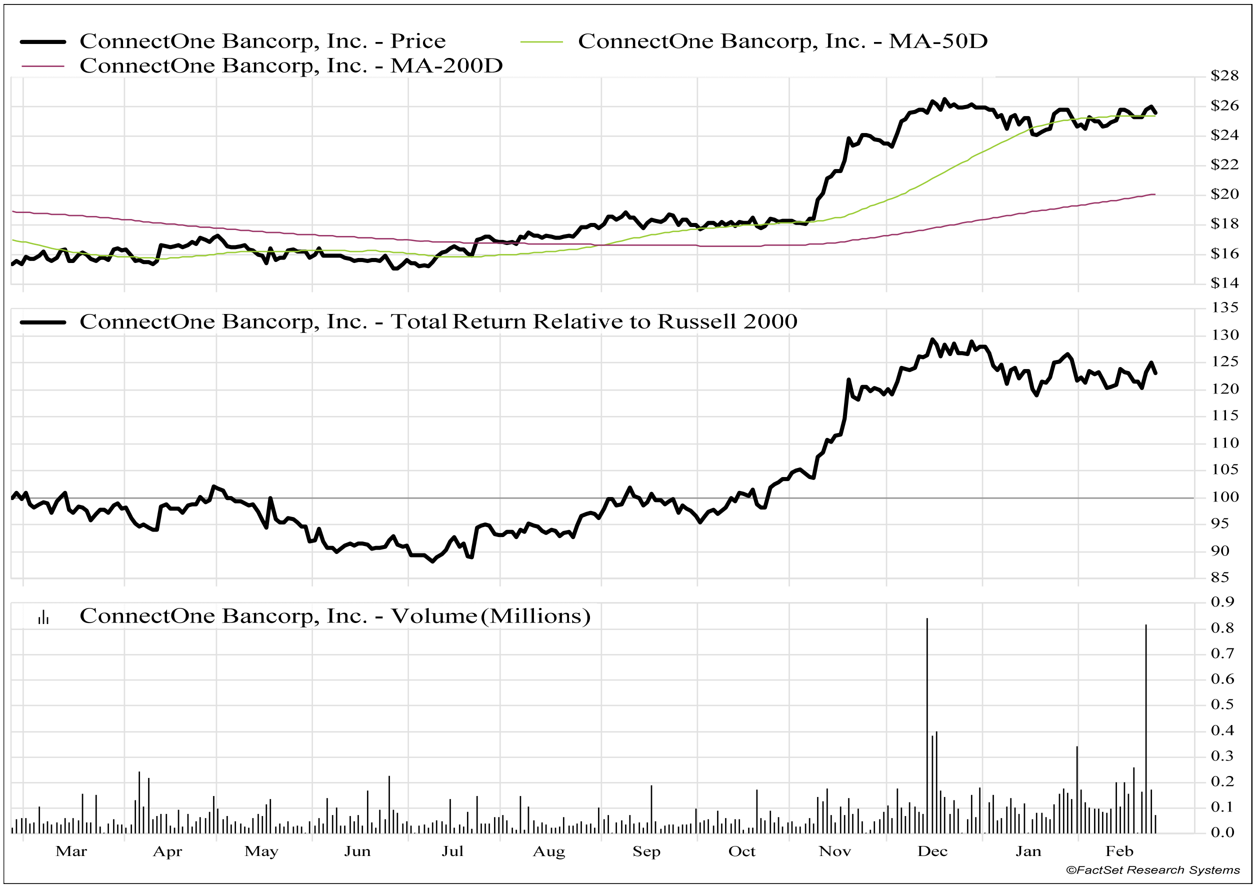
To find the intrinsic value of CNOB, a dividend discount model was used, as well as a price to book and a price to earnings multiple. The P/B and P/E multiple was derived from taking the average P/E and P/B multiple of CNOB's peer and industry, as well as CNOB's P/E and P/B multiple. By doing this, a predicted P/E and P/B multiple of 22.50x and 1.57x was calculated, respectively. These multiples were multiplied by CNOB's EPS ($1.41) and BVPS ($16.54) to reach an intrinsic value of $31.72 for P/E and $29.07 for P/B. Weighing these multiples 50/50, an intrinsic value of $30.39 was reached. The dividend discount model approach using a WACC of 6.50% and a long-term growth rate of 3.1% resulted in an intrinsic value of $30.22. Weighing these valuations 50/50, respectively, the final estimated intrinsic value of CNOB is $30.31, which provides an upside of 21.23%. CNOB also pays a $0.30 annual dividend, yielding 1.2%.

Risks

- **Concentration Risk.** CNOB's loan portfolio is made up largely of commercial real estate loans. At December 31, 2016, CNOB had $2.2 billion of commercial real estate loans, which represented 62% of its total loan portfolio. CNOB commercial real estate loans include loans secured by multifamily, occupied properties for commercial uses.
- **Economic Conditions.** Declines in the overall economic climate of the United States or the region could have an adverse effect on CNOB's principal business. In addition, a large portion of CNOB's loan portfolio is comprised of real estate loans. While the local real estate markets are strong, a downturn in the U.S. economy could decrease the value of collateral in CNOB's real estate loans.
- **Liquidity Concerns.** Liquidity risk is the potential that the CNOB may be unable to meet its obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances.

Management and Governance

Frank S. Sorrentino III is the Chairman and CEO of CNOB. Sorrentino was one of the founders of CNOB and has been CEO since 2007. Prior, Sorrentino was a Builder and Construction Manager in Bergen Country. William S. Burns is the EVP and CFO. Prior, he was the CFO of Somerset Hills Bancorp, from 2009 through 2012 and of The Trust Company of New Jersey. Laura Criscione is CCO, EVP and Corporate Secretary. CNOB's ESG rating from MSCI is BB.



Ownership

% of Shares Held by All Insider and 5% Owners:	6.68%
% of Shares Held by Institutional & Mutual Fund Owners:	67.17%

Source: FactSet

Top 5 Shareholders

Holder	Shares (000)	% Out
Fidelity Management & Research Co.	2,589 ▼	8.10
Wellington Management Co. LLP	2,026 ▲	6.34
Endeavour Capital Advisors, Inc.	1,578 ▼	4.94
BlackRock Fund Advisors	1,425 ▲	4.46
The Vanguard Group, Inc.	1,171 ▲	3.67

Source: FactSet

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/B	P/E	LTM ROA
ConnectOne Bancorp	CNOB-US	830.54	42.67	1.16	1.57	18.44	0.74
First of Long Island	FLIC-US	677.59	29.58	2.60	2.15	21.37	0.93
Lakeland Bancorp	LBAI-US	946.82	37.68	2.80	1.79	22.03	0.93
OceanFirst Financial	OCFC-US	937.76	22.22	2.60	1.81	27.02	0.59
Peapack-Gladstone Financial	PGC-US	544.36	23.51	0.97	1.76	22.27	0.73
Peer Averages		776.63	28.25	2.24	1.88	23.17	0.80

Source: FactSet

Gazit-Globe Ltd. - (GZT – US)
March 3, 2017

Jaclyn Godwin — International Financial Services

Gazit-Globe Ltd. (NYSE: GZT) is a global owner and developer of necessity-based supermarket retail properties, situated in dense, urban markets. The firm manages over 427 properties through both public and private enterprises. Its subsidiaries include: Equity One (35% interest), First Capital (37%), Citycon (44%), Atrium (57%), Gazit Brazil, and Gazit Israel. Revenues are dispersed throughout Europe and North America with the majority of revenues stemming from Europe (47%), Canada (24%), and the United States (18%). The firm was founded in 1982 and is headquartered in Tel Aviv, Israel.

Price as of 3/1 close ($) :	$10.20
Price Target ($):	13.34
52WK H-L ($):	(10.97 - 7.52)
Market Cap (mil):	2,026
Avg. Daily Vol:	8,306
Float (%):	47.8%
Short Interest (%):	0.1%
Dividend ($):	0.47
Yield (%):	5.3%

Beta:	1.20
WACC:	5.5%
Cost of Equity:	9.7%
M-Term Rev. Gr Rate Est:	2.9%
Debt/Assets:	0.54x
FFO/Total Debt:	0.03x
ROA (%):	0.7%
ROE (%):	8.3%
Occupancy Rate:	95.8%

FY:	Dec'15	Dec '16E	Dec'17E	Dec'18E
Income	1,927	1,942	2,013	2,104
% Growth	7.27%	0.81%	3.63%	4.56%
Operating Income	442	447	463	526
Operating Margin	22.9%	23.0%	23.0%	25.0%
FFO	381	314	326	387
FFO Margin	19.8%	16.2%	16.2%	18.4%
FFO/Share	10.7	8.0	8.3	9.9
P/FFO	5.16	6.26	6.03	5.08

Recommendation

The acclaimed investor, Warren Buffett, recently stated in an interview with the Israeli newspaper *Hayom*, "Israel is the best place to invest because of its people." Here, the Oracle of Omaha alludes to a key kernel of wisdom – the investor-friendly atmosphere of the resilient Israeli markets. With GDP growing at 3.8% in 2016 and unemployment at a meager 5%, Israel's economic indicators present a favorable atmosphere for investors, despite ongoing geopolitical tensions. Even the equity markets appear to be insulated against local conflicts. The 2006 Second Lebanon War prompted a short-lived 13% decline in the TA-25 index, thereafter returning 17% above pre-conflict level within one week. With this backdrop, real-estate development firm Gazit-Globe Ltd. is introduced. Since its founding in 1982, Gazit has established itself as a premier real-estate developer and operator. Though headquartered in Israel, GZT's geographically expansive portfolio provides a unique opportunity with top-tier shopping centers dispersed throughout Canada, the U.S., Europe, Brazil, and Israel. Such diversification minimizes any singular regional risk. With its subsidiaries, GZT concentrates on necessity-based supermarket centers situated in dense, affluent areas. Beginning in 2009, GZT substituted non-core properties – second tier real-estate in low growth markets – for high quality assets with favorable population and demographic developments. The average income near GZT-centric properties ballooned from $73,000 in 2009 to $102,000 in 2015. By 2016, management announced its intentions to shift to direct property ownership and deleverage its balance sheet; its direct ownership model presents an opportunity for GZT's seasoned management to create added value for stakeholders. As a result of GZT's sustainable business model and conversion to property ownership, it is proposed that Gazit-Globe Ltd. be added to the AIM International Fund at a target price of $13.34, with an upside of 30.76%. The firm offers an attractive 5.3% dividend yield.

Investment Thesis

- **Re-Directing Property Ownership:** GZT's aim to shift its strategy towards direct property ownership signifies a significant growth opportunity. For this premier global real-estate firm, direct ownership will maximize its returns, while also minimizing payouts to external stakeholders. To successfully fulfill this business model, GZT possesses three options: privatization of public subsidiaries, formation of partnerships with other investors to privative public subsidiaries, and acceleration of mature asset turnover. GZT has already minimized its partial position in subsidiaries Equity One and First Capital, while growing its majority stake in

Atrium from 55% to 57% and Gazit Israel from 85% to 100%. The equity issuance of ILS 600 million in December 2015 and dividend cuts further equip the firm with supplementary cash flow to advance the strategy. Management aims to reduce the portion of public subsidiaries to <50% within a three-year time frame. The final tier of the new direct ownership model involves efforts to deleverage the firm's balance sheet. In doing so, GZT will curtail excess overhead costs that are integral for maintenance of public subsidiaries. Reducing debt below its current Debt/Assets of 54% will also have a positive impact on credit ratings and interest costs.

- **An Emergent REIT Giant:** From the merge of GZT's Equity One with Regency Center Corporation, a REIT giant will emerge. The transaction was announced in December 2016 and will close in early 2017, creating an aggregate market cap of $11B. Equity One's CEO David Lukes disclosed that their "industry-leading operations, and access to a lower cost of capital, [open up]…new avenues of growth." The new supermarket REIT will manage over 429 properties; of this portfolio GZT will maintain a 38% stake. The combination of operations is expected to generate $27 million in annual cost-savings by 2018.
- **Deeply Entrenched Management Team:** Gazit's management bench boasts deep industry expertise. The company roots of majority shareholders Chaim Katzman and Dori Segal date back to the 1990s. Since, the firm has strategically expanded into numerous regional markets and successfully completed an IPO on the NYSE in 2011. Both Katzman and Segal possess broad operational knowledge of the business, holding executive offices of subsidiaries throughout their tenure. The influence of real-estate guru Katzman extends far beyond GZT, due to his esteemed positions in the International Council of Shopping Centers and the Association of Foreign Investors in Real Estate. Katzman also serves as Chairman of parent company Norstar Holdings, Inc., which holds a 50.6% interest in GZT. Management's keys relations with industry leaders, deep operational expertise, and alignment with shareholder interests bode well for the business.

Valuation

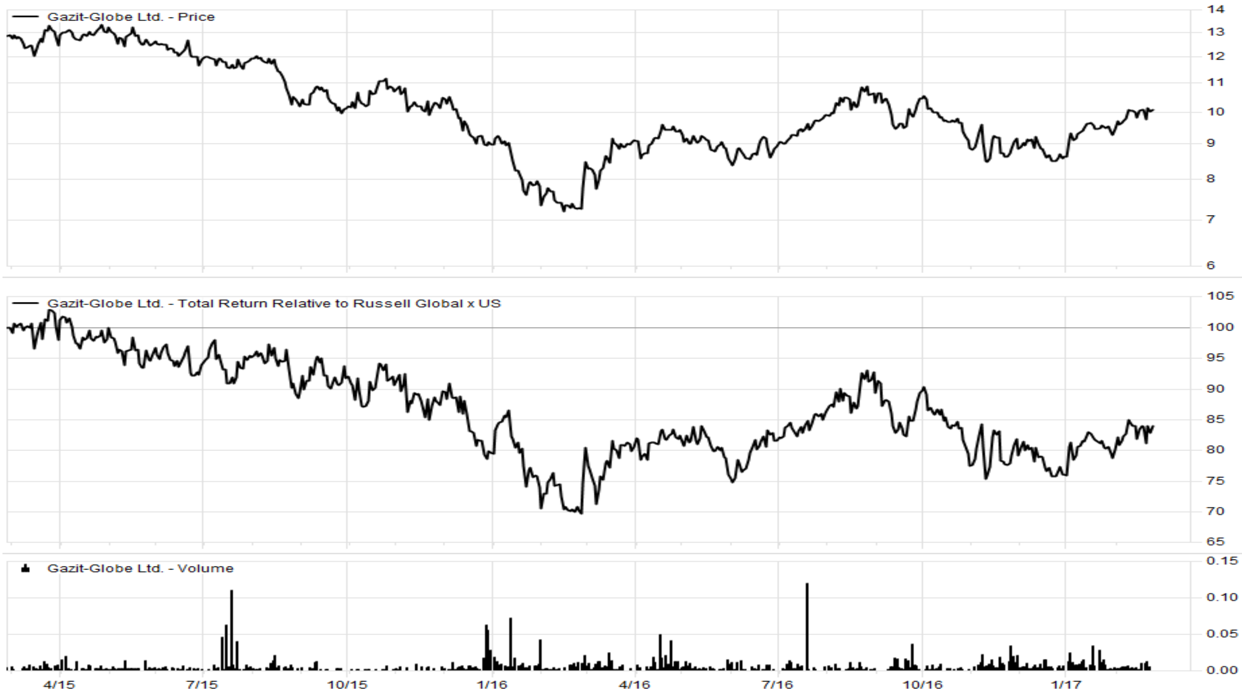
GZT's intrinsic value was calculated through three valuation methods: an NAV model, P/FFO multiple, and DDM. A NAV model was created by summing the firm's assets and subtracting out liabilities. Using a capitalization rate of 6%, an NAV/share of $14.09 was found, representing a 38% upside. For the P/FFO multiple, a historic average of $6.21 and a peer average of $11.77 were used. Weighting the historic average 65% and the peer average 35%, the calculated figure was multiplied by the quotient of the 2016 estimated FFO and 2016 shares outstanding to get an intrinsic value of $13.12, with an upside of 29%. A five-year dividend discount model was created using an average FFO growth of 2.8% and a terminal growth of 2.0%. A cost of equity of 9.7% and a cost of debt of 2.7% were used to calculate a WACC of 5.5%, weighting the equity and debt proportionally – a country risk premium of 1.00% was included. After discounting and summing the cash flows, a value of $12.27 was generated, representing a 20% upside. Weighting the valuations 40/40/20, an intrinsic value of $13.34 was reached, yielding a return of 30.76%.

Risks

- **Political Instability:** While headquartered in central Israel, it is victim to any geopolitical tension and terrorism threats in the region. Continuous periods of conflict could have an adverse effect on the firm's business and operational conditions. To mitigate such a risk, the Israeli government covers the reinstatement value of the damages caused by any war/terrorist acts.
- **Access to Capital Markets:** To sustain growth, GZT relies on access to capital markets. Its international sub-investment grade makes it difficult to obtain capital in foreign markets. Management's resolve to reduce its debt profile should improve its access to foreign debt.

Management

Real-estate veteran Dori Segal currently serves as CEO and Executive Vice Chairman of Gazit, while Katzman provides insight as Chairman. In early 2017, Rachel Lavine stepped down as CEO and Segal began his term. Lavine now continues as Vice Chairman of Atrium and Director of Citycon.



Peer Analysis

Name	Ticker	Market Cap ($ mil)	Revenue	FFO	P/FFO	Dividend Yield
Gazit-Globe Ltd.	GZT - US	2,026	1,927	381	5.16x	5.3%
Kimco Realty Corporation	KIM - US	10,362	1,188	970	14.99x	4.1%
RioCan REIT	RE.UT - CA	8,722	864	474	14.40x	5.3%
Deutsche EuroShop AG	DEQ - DE	2,105	226	150	14.73x	-
Sponda Oyj	SDA1V - FI	1,359	262	100	2.96x	4.6%
	Peer Averages	5,637	635	423	11.77x	4.7%

Source: Factset

Ownership

% of Shares Held by All Insider and 5% Owners:	52.2%
% of Shares Held by Institutional & Mutual Fund Owners:	>34%

Source: Factset

Top 5 Shareholders

Holder	Shares	% Out
NorStar Holdings, Inc.	98,913	50.6%
Mawer Investment Management Ltd.	12,463	6.4%
Psagot Securities	2,841	1.5%
Psagot Provident Funds Ltd.	2,204	1.1%
The Vanguard Group, Inc.	2,128	1.1%

Source: Factset

Toronto-Dominion Bank (TD)
March 3, 2017

Nicholas Christman International Financial Services

Toronto-Dominion Bank (NYSE: TD) is the seventh largest retail bank in North America by total assets. The bank was formed in February 1955, as a result of the merger between Bank of Toronto and the Dominion Bank. TD provides a multitude of financial services through their three major business lines: Canadian Retail, US Retail, and Wholesale Banking. TD ranks among the world's leading online financial service firms, with roughly 11 million online and mobile customers. TD's geographic revenue breakdown is Canada (59.4%), United States (35.6%), and Other (5.00%). Revenues are broken down into the following segments: Canadian Retail (61.8%), US Retail (28.9%), and Wholesale Banking (9.30%). Toronto-Dominion Bank is headquartered in Toronto, Canada and has more than 80,000 employees in offices worldwide.

Price ($): (3/1/17)	52.16
Price Target ($):	63.97
52Wk H-L ($):	38-54
Market Cap (mil):	98,230
Float (mil):	1854.0
Short Interest (%):	0.37%
Avg. Daily Vol (mil):	1.32
Dividend ($):	1.63
Yield (%):	3.20%

Beta:	1.01
COE	7.3%
M-Term Rev. Gr Rate Est:	9.0%
M-Term EPS Gr Rate Est:	15.6%
Financial Leverage	16.54x
ROA:	0.8%
ROE:	12.8%
Tier 1 Capital Ratio	12.2%
Loan Loss Reserves/Loans	0.4%

FY: Dec	2015A	2016A	2017E	2018E
Income (Mil)	19,941	20,019	22,021	23,783
% Growth	-9.13%	0.39%	10.00%	8.00%
Net Interest Margin	2.87%	2.01%	2.11%	2.18%
Pretax Margin	36.93%	40.08%	42.88%	43.80%
EPS (Cal)	$3.38	$3.52	$4.29	$4.70
P/E (Cal)	12.1	12.9	14.9	14.6
BVPS	25.8	27.4	30.8	34.5
P/B	1.6	1.7	2.1	2.0

Recommendation

TD Bank is in a unique position to benefit from their significant US operations (TD Bank, N.A.), which accounts for roughly 36% of total revenue. TD has the potential for market share gains as disruption is now more evident than ever. Retail banking is in a surprising state of flux following the Wells Fargo phony account scandal. Wells Fargo customers have closed more accounts than this time last year and new accounts have dropped 31% in January YoY. Given the opportunity for rising interest rates, banks have performed well this year with the S&P Bank Select index returning 10% in the last 3 months. TD's stock is no exception as the ADR shares have returned 10.8% over the last 3 months. There is, however, more upside for TD despite the recent stock surge. The Canadian Dollar and economy are finally recovering as oil prices rebound. The CAD has weighed on returns over the past few years, which has masked the bank's overall strong performance. TD's EPS has grown as a 5-year CAGR of 6.78% and assets have grown at a 5-year CAGR of 7.73% before any currency adjustments related to the ADR shares. TD boasts a higher quality loan portfolio than top peers, such as Royal Bank of Canada (RY) and Canadian Imperial Bank of Commerce (CM). Non-performing loans to total loans for TD is .55% vs. RY at .77% and CM at .63%. TD has ample capacity to grow their loan portfolio with their LDR (loan to deposit) ratio reaching a 5-year low in FY16 at 76.92% compared to 83.54% in FY13. However, this doesn't signal lagging asset growth (7.73% 5-year CAGR), as TD has the highest asset growth in their peer group over the past 5 years. TD's differentiated digital banking experience, through its simplicity and accessibility, coupled with its trusted brand image bring stability and growth. Based on an attractive positioning in both Canadian and US retail markets, it is recommended that TD be added to the AIM International Equity Fund with a price target of $63.97, representing a 22.65% upside. TD pays a dividend with the current yield at 3.2%.

Investment Thesis

- **Improved Credit Quality.** Provisions for credit losses (PCL) rose 38% in FY16 as TD prepared for potential fallout from sub $30 oil prices and a weakening Canadian dollar. PCL as a % of net loans rose to .63% from .52% in FY15. Since the beginning of FY17, oil prices have stabilized as has the Canadian currency (C$1.00 equals $0.76). Normalizing the provision costs back to FY15 levels presents a cost saving opportunity. Meanwhile, PCL is projected remain at .63% of net loans on lower depletion of provisions on improving economic conditions in Canada. The YoY decrease in provision costs is projected to add $.13 in EPS for FY17.

- **Digitalization Drives Efficiency.** TD is on the forefront of online banking and this has allowed it to consistently drive loan growth and cost reductions. Digitalization makes bank branches obsolete reducing labor and overhead costs. TD can continue to benefit from their strong portfolio of digital banking solutions including self-service branches, TD MySpend, and their digital banking app. TD has driven down their efficiency ratio (non-interest expense/revenue) to 55% in FY16 from 60% in FY12. TD has the second lowest efficiency ratio in their peer group (RY 52.4%), signaling room for further improvement.
- **US Rates Play with Canadian HQ.** TD Bank is much more than just a Canadian retail bank. TD has 1,278 branch locations all located on the US East Coast. Their US business stands to benefit from a rising interest rate environment with 39% of TD's earning assets are in the US. A sensitivity analysis by TD's management revealed a $131MM increase to pre-tax net interest income with a 100bps increase in US rates. The US segment is very important in TD's bottom line equating to roughly 27% of FY16 earnings. TD's earnings are also driven by a 41.4% equity investment in TD Ameritrade, which increased FY16 earnings $326MM.

Valuation

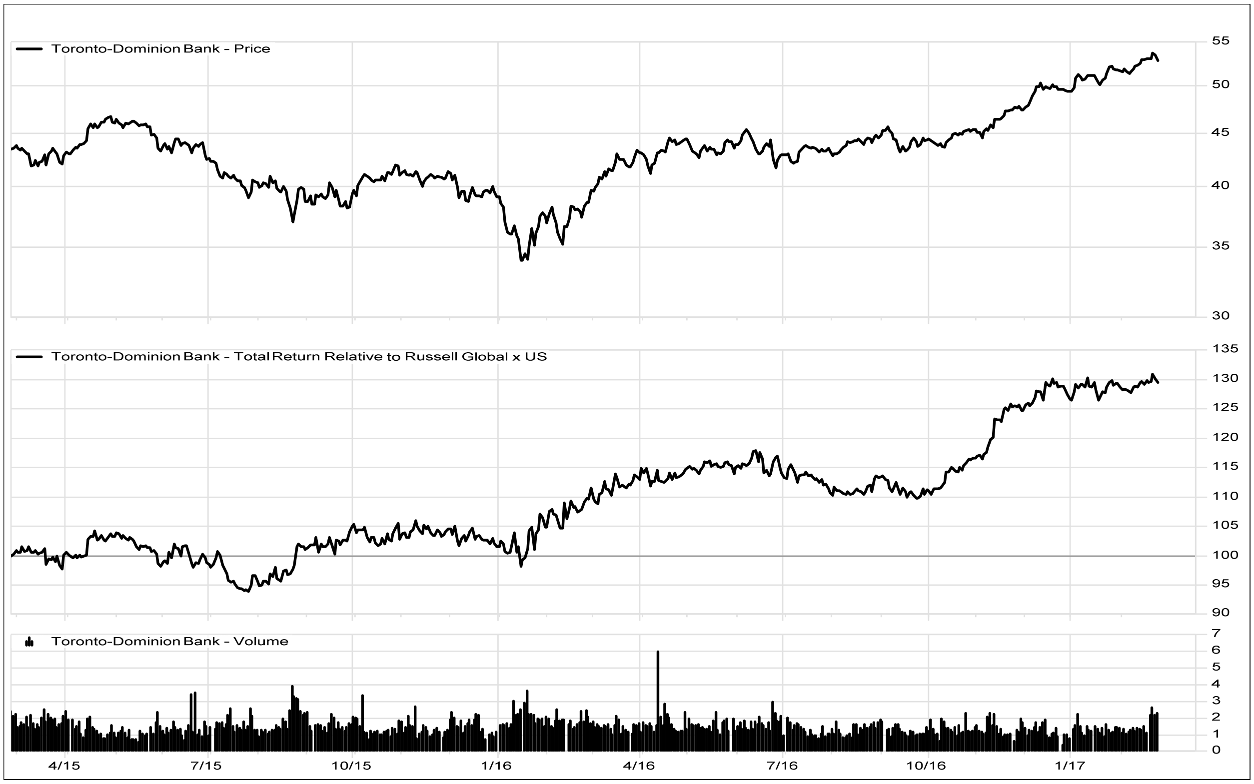
To find the intrinsic value of TD a price to book multiple was used. The 10-quarter weighted average historic price to book for TD was 1.67x and the 10-year average historic price to book for TD was 1.72x. TD's peer average P/B multiple was higher at 1.97x. A target price to book valuation was created alternatively using a Gordon Growth Model, using a COE of 7.3%, 2017 ROE of 13%, and LT growth of 2.5%. This resulted in a price to book value of 2.19x. A sensitivity analysis was run altering LT growth ± .5% and 2017 ROTE ± 2%, yielding a price range of 52.40-86.13. Weighting historical, peer, and Gordon growth valuations 10/30/60, the final estimated intrinsic value of TD is $63.97, which provides an upside of 22.65%. TD has a dividend yield of 3.2%, with a target payout ratio between 40% and 50%.

Risks

- **Economic Uncertainty.** TD's financial performance depends on the health of the overall Canadian and US economy. Overall impacts of the lower oil prices and 2016 wildfires in Canada have kept GDP growth around 1%. Deterioration in credit quality would lead to lower earnings and asset growth. This risk is mitigated through the Basel III capital framework. The bank's CET1 ratio is 10.4%, which is in line with peers and Basel capital requirements.
- **Legal and Reputational.** Banks in particular are scrutinized by multiple governmental and regulatory agencies. While TD has limited legal trouble much better than their North American peers, they are not immune to breaking laws. This risk should be mitigated with ongoing efforts of the current US administration to simplify banking regulations.
- **Canadian Currency Exposure.** The Canadian exchange rate has gone from parity in FY12 to .75 CAD per USD in FY16. Despite strong domestic earnings growth, the weak currency has hurt ADR returns. This risk is partially mitigated by TD's US operations which have benefitted from a strong dollar.

Management

Bharat Masrani is the CEO of TD Bank and has served in this role since November 1st, 2014. He also served as COO starting in July 1st, 2013 and has been with the bank since 1987 when he started as a commercial lending trainee. Mr. Masrani graduated from the York University. TD's CFO is Riaz Ahmed, who has been with the bank since 1996.



Ownership

% of Shares Held by All Insider and 5% Owners:	0.11%
% of Shares Held by Institutional & Mutual Fund Owners:	56.99%

Source: Factset

Top 5 Shareholders

Holder	Shares (000)	% Out
RBC Global Asset Management, Inc.	115,711	6.23
CIBC World Markets, Inc.	73,133	3.94
BMO Asset Management, Inc.	68,230	3.67
1832 Asset Management LP	60,860	3.28
FIAM (Canada) ULC (Fidelity)	52,185	2.81

Source: Factset

Peer Analysis

Name	Ticker	Market Cap (mil)	Net Income (mil)	Div. Yld. %	P/BV	D/E
Toronto-Dominion	TD	92,320	6,649	3.59	1.93	1.5
Bank of Montreal	BMO	49,516	3,484	3.98	1.72	1.9
Bank of Nova Soctia	BNS	74,197	5,364	4.00	1.89	2.6
Royal Bank of Canada	RY	109,559	7,843	3.87	2.28	1.9
Canadian Imperial Bank	CM	36,001	3,563	4.73	2.00	1.9
PNC Financial Services*	PNC	61,537	3,852	2.11	1.47	1.1
Peer Averages		67,318	5,064	4.15	1.97	2.1

**Removed For Relative Valuation Analysis*

Source: Factset