Applied Investment Management (AIM) Program

AIM Class of 2018 Equity Fund Reports
Fall 2017

Date**:* Friday, September 22nd | ***Time:** 2:30 – 3:30* p.m. | ***Location: AIM Research Room 488

Presenter	**Company Name**	**Ticker**	**Sector**	**Page**
Grant Runnoe	Magna International	MAG	International Consumer Discretionary	2
Max Mattappillil	Albany International, Inc.	AIN	Industrials	5
Tim Milani	Alibaba Group Holding Ltd. Sponsored ADR	BABA	International Technology	8
Cathy Gong	AIA Group Limited	AAIGY	International Financial Services	11

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.

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881

mailto: AIM@marquette.edu

Website: MarquetteBuz/AIM AIM Blog: AIM Program Blog
Twitter: Marquette AIM Facebook: Marquette AIM

Magna International (MGA)
September 22, 2017

Grant Runnoe International Consumer Discretionary

Magna International (NYSE: MGA) is a global automotive supplier, located in 29 countries with 327 manufacturing locations. MGA contains a diverse product assortment including body and chassis (25.1%), exterior (14.5%), seating (13.9%), powertrain (17.8%), active driver assistance systems (8.5%), vision (7.6%), closure (6.6%) and vehicle assembly (6%). MGA also has 70 customers (General Motors, Ford, FIAT accounting for 51%), and 18 partners primarily for research collaboration. The company was founded in 1957 and headquartered in Aurora, Canada.

Price (CA$):	62.08	Beta:	1.03	FY: Dec	2016A	2017E	2018E	2019E
Price Target (CA$):	78.91	WACC	11.2%	Revenue (Mil)	48,402.05	50,524.70	53,925.79	57,575.61
52WK H-L (CA$):	63.93-49.44	M-Term Rev. Gr Rate Est:	5.2%	% Growth	17.4%	4.4%	6.7%	6.8%
Market Cap (mil):	23,519	M-Term EPS Gr Rate Est:	13.0%	Operating Income	3761.45	3584.29	4151.27	4736.48
Insider Holding	6.0%	Debt/Equity:	32.0%	Operating Margin	7.8%	7.1%	7.7%	8.2%
Avg. Daily Vol (TH) :	54,052	Debt/EBITDA (ttm):	0.79x	EPS (Cal)	$6.91	$7.62	$8.94	$10.12
Dividend ($):	$1.06	ROA:	9.3%	FCF/Share	$5.18	$4.84	$6.08	$7.24
Yield (%):	2.4%	ROE:	21.4%	P/E (Cal)	11.4x	10.4x	8.8x	7.8x
ESG Rating	BBB	ROIC:	20.1%	EV/EBITDA (Cal)	5.0x	5.5x	6.0x	5.3x

Recommendation:
In the midst of a rolled over automotive market (sales in North America -3% YoY, Europe: -1% YoY), MGA continues to announce record performance. The company has a 5-year CAGR of 15% in EBITDA growth, 19.3% in EPS and 15% in dividend payout. In 2Q17, EPS hit $1.48 representing a 5% YoY increase along with record sales of $9.68 billion in the quarter. The company maintains organic growth of 4% compared to the peer market of 2%. Driving MGA's success is their positioning in disruptive automotive technology. In August, 2017 IIHS reported that level 1 autonomy features, such as lane departure warning cut the fatal crash rate 86%, all crashes dropped 18% and rate of injury crashes slid 24%. The race among Original Equipment Manufacturers (OEM) is rapidly accelerating to be the leader in these technologies; however, it is the suppliers (OEs), producing a unique product applicable across a many vehicle models creating a competitive advantage, who will ultimately win. MGA stands at the forefront since the early 2000's creating technology driven products. It recently displayed their autonomous emergency braking in the Chevrolet Volt. Just as airbags became a safety requirement so too will these autonomous platforms - the US Government has placed them as standard for vehicles in 2022. MGA continues to evolve with its breath of autonomous knowledge and created a level 4 autonomous platform to be revealed in 2H17. With its market positions and growth potential it is recommended that Magna International be entered into the AIM International Equity Fund at a target price of $78.91 yielding a 27.10% upside and pays a 2.4% dividend yield.

Investment Thesis:

- **The Early Bird Gets the Worm:** MGA's recent product innovations and wins reveals that MGA leads the way as an OE. They are known for creating industry first such as in-floor under seats storage, 30-way adjustable seats in the Lincoln Continental, automated trailer back up system in the F-150, a single electronic unit controlling doors in a vehicle, and mirrors with navigation and blind spot display. MGA has a deep pipeline that the market has yet to realize. They are in the process of implementing seats that prevents drivers from falling asleep on the road, by detecting one's lowering heart rate (blood pressure). MGA has innovated "hot stamping," which compresses material of external frames/doors resulting in 43% mass reduction applicable to 70% of the light vehicle market and is expected to grow at an 18% CAGR through 2019. This is a key market as EVs and autonomous vehicles approach. Lastly, MGA created an autonomous platform that has been successfully tested. The journey was in autonomous mode 92% of the time, traveling over 300 miles. MGA has produced a level 4 autonomous platform that will be revealed in 2H17. Content per vehicle is expected to reach $1,500 in a TAM of $100BB.

- **Entering New Markets and Networks:** YoY Mainland China Revenues are up 15.2%. This success has the potential to accelerate further as MGA acquired the world's largest independent supplier of transmission, Getrag, which will begin production in 2019. As regulations tighten MGA is positioned to be a leader in drivetrain transmission emission reduction capabilities. These engines reduce CO2 emissions enabling OEM to produce vehicles that surpass emission regulations (key in EU and China). This acquisition enables MGA to place a foothold in the frothily Chinese market. MGA also entered into a joint venture with China's Hubei Aviation Precision Machinery Co. who is a major seat supplier. If strategically implemented their sleep detection seats has the ability to explode. The seating has a projected 8% CAGR through 2019. MGA also had its first win with BMW seating group and created a plant operational in 2H17.
- **Growth Stock Stuck in a Value Play:** Despite MGA's growth potential (see box below) it currently trades at 4.7x EV to EBITDA compared to an industry competitor average of nearly 6x. Margins have been plagued with short-term headwinds with higher commodity cost and pre-operating cost incurred at new facilities also affected the margins. The launch relating to the BMW 5 Series created unexpected costs. Nevertheless, these costs were partially offset by increase in net productivity and efficiency improvements. With simple 'blocking and tackling', EBIT margins are expected to increase 100 bps to 8.2%. MGA also pays a 2.4% dividend yield, FCF/Share of 5.32 and bought back 8.5 million shares for $383 million stock in 2Q17. Returning 6.5B to shareholders form 2011-2016, $1.8 B in dividends and $4.7 B in share repurchases.

Valuation:

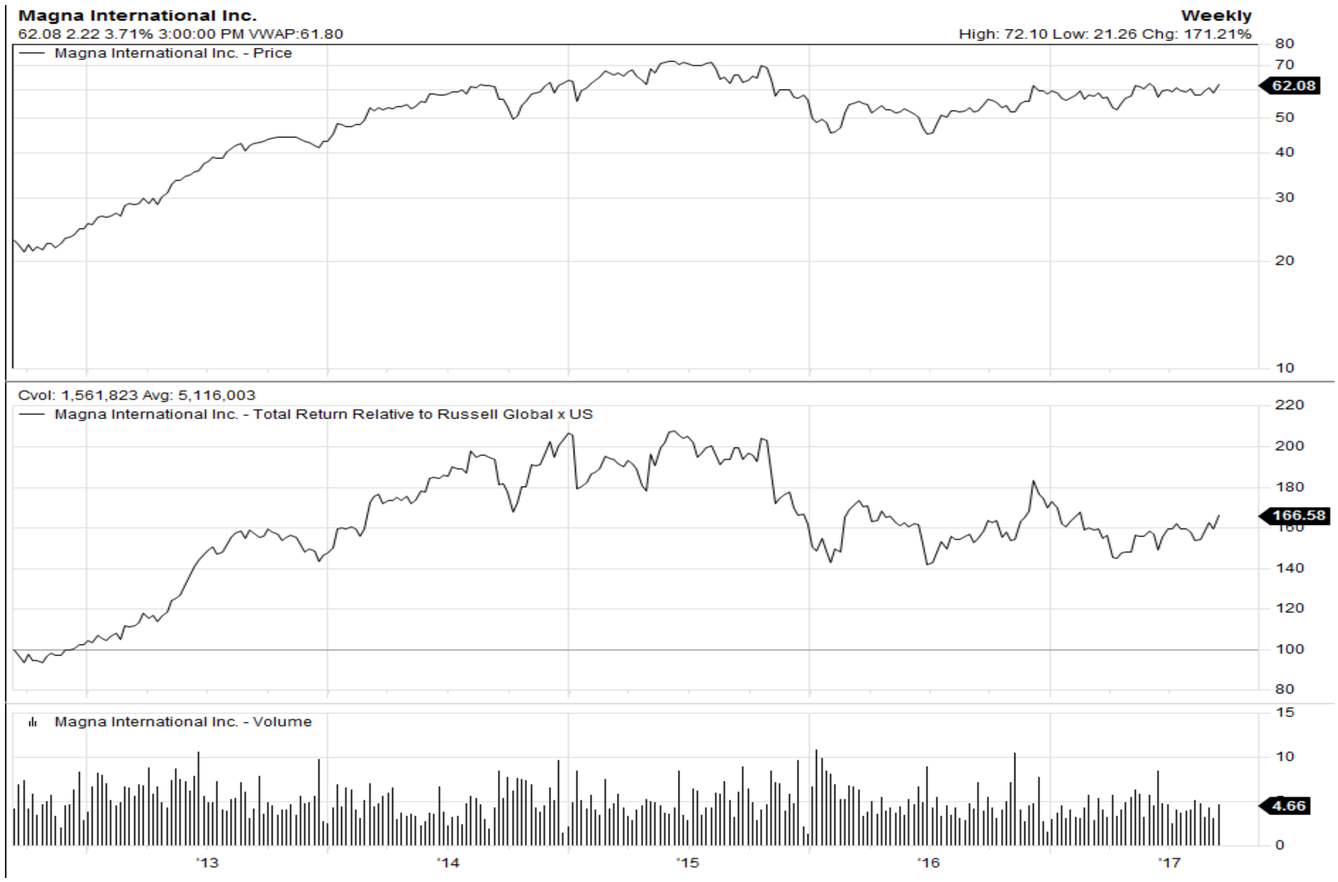
In order to reach an intrinsic value for MAG, a five year DCF model was constructed. Using a terminal growth rate of 2%, WACC of 11.2%, an intrinsic value of $84.69 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $97-75. Additionally, a P/E multiple valuation was conducted using 2018 EPS of $8.94, and a comparables weighted average P/E of 9.6x, which resulted in a valuation of $85.62. Lastly, and EV/EBITDA multiple was used using a multiple of 6x a value of 64.47 by weighting the three valuation models 40/30/30, a price target of $78.91 was reached, which yields a 27.10% upside. MGA pays a dividend of $1.04, yielding 2.4%.

Risks:

- **Economy Echoes Earns:** Although, as a supplier, content per vehicle is the key driver of revenue other factors affect the automotive industry as a whole. Factors such as vehicle miles driven, average age of vehicles, and the price of gas would have a negative impact on MAG. Political factors such as a boarder tax would also directly affect MAG.
- **Concentrated Customers:** The top 5 customers of MGA hold ~ 75% of its revenue. GM (20%), F (16%), FCA (15%), DAI (12%) and BMW (10%). MGA contracts multiple vehicles and many series in each company solidifying their long-term relationship, nevertheless a loss of a major customer would negatively impact MGA's growth.
- **Pricing Pressure:** As an OE, one is at the mercy of the OEM. There are constant pricing pressures and if MGA is forced to lower price this could negatively affect their margins/profitability.

Management:

Mr. Walker (CEO, 60) gained 7 years of experience at GM before joining Magna in 1987. He became the CO-CEO in 2005 and obtained the sole position in 2010. Mr. Galifi (57) achieved the CFO and EVP positions in 1997 and 1996 respectively.



Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E		EV/EBITDA	P/B
Magna	MG-CA	22,142	0.46	8.11		4.71	1.60
Lear	LEA-US	13,047	0.52	9.60		5.35	2.78
Faurecia	EO-FR	10,720	0.38	13.14		4.59	2.37
Tenneco	TEN-US	3,701	0.31	10.65		6.57	4.57
Dana	DAN-US	4,453	0.53	4.95		7.06	3.06
Visteon	VC-US	4,524	1.10	27.57	*	9.26	6.09
Peer Averages		7980.35	0.44	9.58		5.89	3.20

*not utilized in average

Source: Factset

Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Magna	MG-CA	2,824	21.4%	9.3%	32.0%	152
Lear	LEA-US	1,410	32.0%	9.9%	53.1%	187
Faurecia	EO-FR	820	20.6%	5.3%	65.7%	97
Tenneco	TEN-US	356	46.5%	5.9%	262.4%	100
Dana	DAN-US	910	73.7%	13.5%	167.3%	170
Visteon	VC-US	197	25.0%	6.4%	68.4%	228
Peer Averages		738	39.6%	8.2%	123.4%	156.6

Source: FactSet

Albany International, Inc. (AIN)

September 22, 2017

Max Mattappillil Domestic Industrials

Albany International, Inc. (NYSE: AIN) is a manufacturer of paper machine clothing as well as a market leader in designing advanced, composite structures for customers in the aerospace and defense markets. AIN operates through two segments: Machine Clothing (MC) and Albany Engineered Composites (AEC), representing 75% and 25% of the business respectively. AIN is well known for its 3D-Woven proprietary technology that is used in constructing a variety of aerospace and defense products. AIN is highly active within Asia and Europe – particularly France – which represents nearly 45% of their revenue. AIN went public in 1972 and is headquartered in Rochester, New Hampshire

Price ($): (9/20/17)	55.75
Price Target ($):	70.48
52WK H-L ($):	$37.00 - $55.15
Market Cap (mil):	1,798.00
Insider Holdings	1.73%
Avg. Daily Vol (000s):	143,117.00
Yield (%):	1.20%
ESG Rating	

Beta:	1.43
M-Term Rev. Gr Rate Est:	10.58%
M-Term EPS Gr Rate Est:	27.80%
Debt/Equity:	0.95
Debt/EBITDA (ttm):	2.41
WACC	10.66%
ROA:	4.64%
ROE:	10.48%
ROIC:	6.19%

FY: Dec	2016A	2017E	2018E	2019E
Revenue (Mil)	779.84	833.30	918.89	1,018.88
% Growth	9.86%	6.85%	10.27%	10.88%
Operating Income	108.364	122.32	159.55	205.52
% Growth	32.23%	12.88%	30.44%	28.81%
Operating Margin	13.90%	14.68%	17.36%	20.17%
EPS (Cal)	$2.01	$2.15	$3.01	$3.94
P/E (Cal)	27.7	25.9	18.5	14.2
EV/EBITDA	10.20x	8.57x	7.23x	6.23x

Recommendation

At a production rate greater than 400 million metric tons per year, paper usage has become widespread in its applications from the industry to the corporate world. However, it must be prepared in a systematic way, requiring machines to accurately transform a mass of watery pulp into fresh sheets of paper. Representing nearly 30% of global market share, Albany International is a leader in paper machine clothing and provides the components necessary to produce nearly all forms of paper product with any machine. Especially important in an era of instant delivery, Albany can take advantage of growing services like Amazon Prime by providing the required tools and machinery to rapidly generate boxes for global shipments on a daily basis. Yet AIN is unique in its ability to penetrate the lumber and textile space in addition to being a leader in the aerospace and defense markets. Despite representing only a quarter of AIN's business, AEC is at a strong advantage with its 3D-Woven technology that allows for the construction of extremely durable and lightweight composite structures. Contracted by Lockheed Martin, Boeing, the U.S. Military, and Rolls-Royce, AIN has the advantage of impacting a variety of defense products, including military helicopters, fuselages, missile bodies, and jet engine fan blades individually capable of supporting a Boeing 747. Moreover, AIN's acquisition of Harris Corporation's aerostructure business in April 2016 is a catalyst to becoming the market leader in advanced aerostructure production. AIN also works extensively with Europe as demonstrated by their exclusive contract to supply composite fan blades for 13,000 Safran LEAP engines in a single quarter for the Paris Air Show, representing over 6 years of production. Additionally, AIN's proprietary technology and widening product space has allowed AIN to apply their expertise towards projects currently under development, such as the Boeing 777x GE9X jet engine which is set to appear as early as 2019. Coupled with AEC's sales growth from 9% of total sales to 32% in a matter of three years, AIN is well poised to transition a greater portion of their business towards an increasingly profitable market. Thus, it is recommended that Albany International be added to the AIM Equity Fund with a target price of $70.48, representing a 26.41% upside.

Investment Thesis

- **Explosion of growth opportunities for AEC.** Management has declared 10 major opportunities within AEC that can spike organic growth in the coming years. In addition to providing fan blades for the LEAP engine under a long term contract, AIN is currently designing components for the U.S. Marine Corps CH-53K helicopter and building the fan case for the Boeing 777X

GE9X engine which are set to be released in 2018 and 2019 respectively. The CH-53K will be the largest and heaviest U.S. military helicopter and production estimates hover around 200 helicopters for the USMC at a value of $25 billion. Other opportunities include production of the fuselage components for the Boeing 787 and missile bodies for the Lockheed Martin JASSM air-to-surface missiles. The acquisition of Harris Corporation's aerostructure business provides new avenues for AIN's product line and expands upon AIN's production capabilities.

- **Increased global production of paper and paperboard.** According to RISI, the pulp and paper industry is expected to grow close to 2% annually over the next 5 years. Despite declining revenues YoY, the MC segment provides a significant portion of AIN's revenue and increased demand for paper can help AIN reduce its lack of revenue growth. Additionally, new and more efficient machines are being installed in Asia and South America. AIN's penetration in China and Brazil provides a second opportunity to increase MC sales and halter its revenue decline.
- **Long-term contracts with major aerospace businesses.** AIN maintains long term contracts with the best performing companies in the global aerospace market including Lockheed Martin, Rolls-Royce, Boeing, and SAFRAN. AIN's ability to consistently provide these companies with advanced composite structures continues to promote AIN as a dominant player in the market. Composite structures can provide immense durability and significantly reduce production costs. Utilizing its proprietary 3D-Woven technology, AIN is given a significant advantage over its competitors to provide stronger construction over a variety of products in the aerospace market.

Valuation

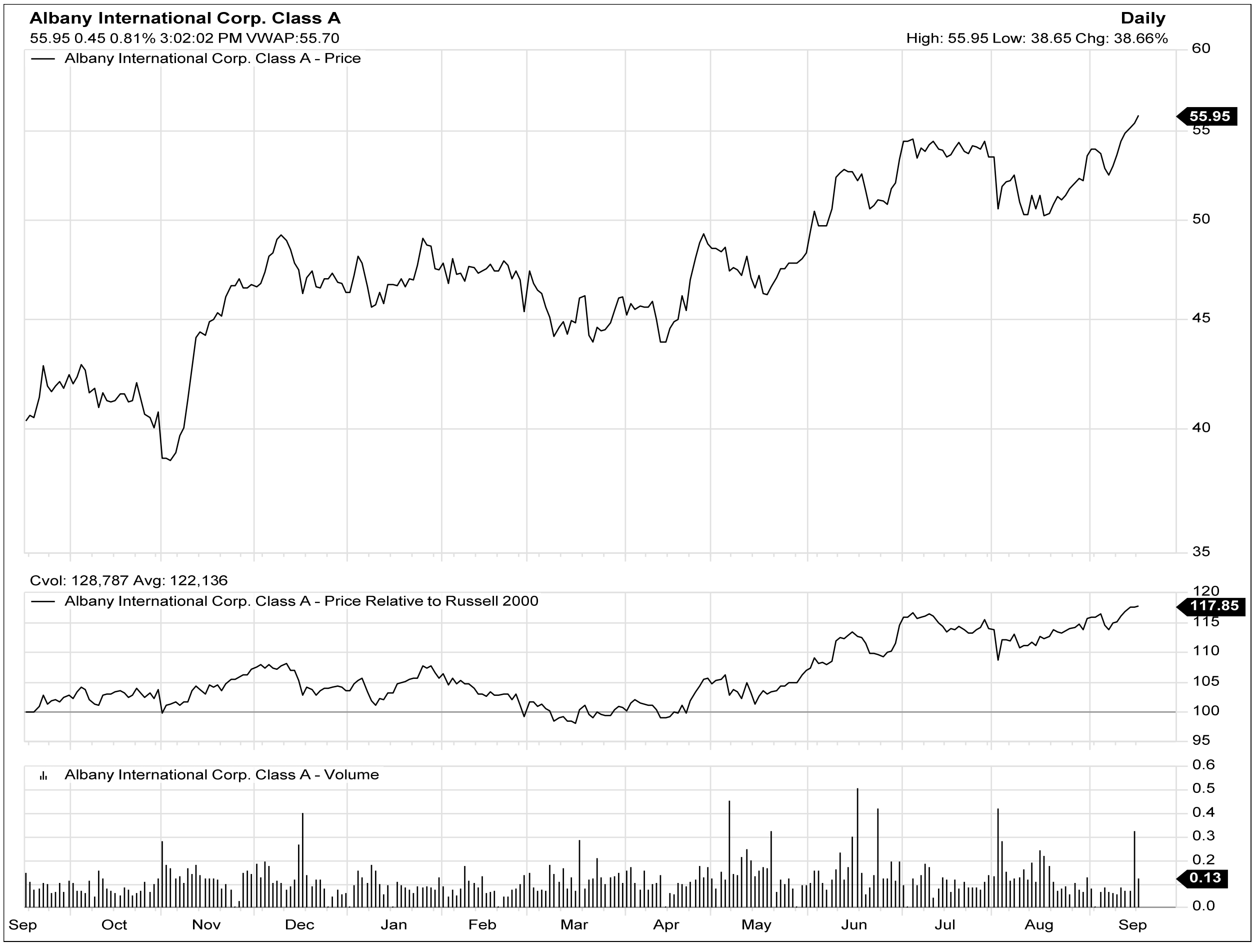
In order to reach an intrinsic value for AIN, a five year DCF model was constructed. Using a terminal growth rate of 2.00% and a WACC of 8.63%, an intrinsic value of $72.58 was reached. Additionally, a P/E multiple valuation was conducted using AIN's peer average of 34.8x and AIN's 2017E EPS of $2.15, resulting in a valuation of $74.95. Weighing the DCF and P/E/ multiple models 60/40, a price target of $70.48 was reached, yielding a 26.41% upside. AIN paid a dividend of $0.68 in 2016, yielding 1.30%.

Risks

- **Highly dependent on long-term contracts.** Despite obtaining many long term contracts, failing to consistently take on new projects could rapidly deteriorate AIN's revenue growth. Representing nearly 30% of AEC's sales in 2016, the U.S. Government is a major component in AIN's successful Engineering Composite segment. Should AIN's competitors develop a more robust composite structure for aerospace and defense products, this could be detrimental towards AIN's success as a market leader.
- **Subject to the "Efficiency Trap".** Due to the widespread use of paper products globally, machines have become more and more efficient over time. Although AIN can still provide the belts and structural components for these machines, increased efficiency means a longer useful life and less demand for brand new machines. An extensive period of low demand could hurt AIN significantly as their MC segment provides the majority of its annual revenue.
- **Replacement of CEO in April 2018.** Joseph Morone serves as CEO of AIN and has worked at AIN for over 20 years. As he plans to retire next April, AIN's future success is dependent upon Mr. Morone's ability to find an individual that is capable of managing AIN as a business as well as investing a significant amount of attention towards AEC's future projects. Within the aerospace and defense market, technical experience is a necessity and losing Mr. Morone as CEO may be detrimental towards AIN's ability to rapidly innovate.

Management

Joseph Morone has held the position of President and CEO since 2005 and 2006 respectively. Prior to joining Albany International, he served as president of Bentley University in Waltham, Massachusetts. He plans to retire by April 2018 and is actively sourcing potential candidates to replace his position. John Cozzolino has served as the CFO since 2011 and has been with Albany International since 1994.



Name	Ticker	Revenues	ROE	ROA	Debt/Equity	Est 5 yr NI growth
Albany International Corp. Class A	AIN	1,617	10.48%	4.64%	0.95	9.51%
KLX, Inc.	KLX	1,494	2.18%	1.30%	53.22	
Kadant Inc.	KAI	1,029	35.97%	11.37%	117.30	4.89%
Nordson Corporation	NDSN	6,606	6.86%	2.78%	75.45	-7.14%
Boise Cascade Co.	BCC	1,231	6.86%	2.78%	75.45	-7.14%
Aerojet Rocketdyne Holdings, Inc.	AJRD	2,271		0.83%	1,923.48	13.86%
Peer Averages		2,590	12.97%	4.56%	80.36	-3.13%

Name	Ticker	Market Cap	P/E	EV/EBIT DA	P/FCF	P/S
Albany International Corp. Class A	AIN	1,617	29.50	13.21	17.22	0.07
KLX, Inc.	KLX	2,516	53.25	17.59	16.95	1.71
Kadant Inc.	KAI	1,029	21.25	10.64	15.10	1.65
Nordson Corporation	NDSN	6,606	21.17	14.21	21.31	3.18
Boise Cascade Co.	BCC	1,231	22.96	7.72	12.82	0.22
Aerojet Rocketdyne Holdings, Inc.	AJRD	2,271	66.48	9.31	10.64	0.67
Peer Averages		2,846	37.02	11.89	15.36	1.49

Alibaba Group Holding Ltd. Sponsored ADR (BABA)
September 22, 2017

Tim Milani — International Technology

Alibaba Group Holding Ltd. Sponsored ADR (NYSE: BABA) is an online mobile commerce company that provides numerous services including cloud computing, mobile payment solutions and online shopping. BABA is highly diversified as revenues are generated across multiple segments including Core Commerce, Cloud Computing, Digital Media Entertainment and Innovation Initiatives (84.6%, 4.2%, 9.3%, and 1.9% of revenues, respectively) with most of it derived from Mainland China (83%). BABA was founded in 1999 and is headquartered in Hangzhou, China.

Price ($):	$ 179.61
Price Target ($):	$ 229.52
52WK H-L ($):	86.01-180.29
Market Cap (mil):	454,234
Insider Holdings	8.03%
Avg. Daily Vol (mil):	18.715
Yield (%):	0.00
ESG Rating	B

Beta:	1.40
M-Term Rev. Gr Rate Est:	41.48%
M-Term EPS Gr Rate Est:	73.67%
Debt/Equity:	31.25%
Debt/EBITDA (ttm):	1.76
WACC	12.41%
ROA (%):	8.31%
ROE (%):	15.11%
ROIC (%):	10.20%

FY: Dec	2016A	2017A	2018E	2019E
Revenue (Mil)	15,903.7	23,468.7	32,878.9	45,039.8
% Growth	29.3%	47.6%	40.1%	37.0%
Oper Inc	4,647.54	7,252.67	11,767.43	16,660.43
% Growth	23.52%	56.05%	62.25%	41.58%
Op Margin	29.22%	30.90%	35.79%	36.99%
EPS*	$1.57	$4.39	$5.88	$8.22
P/E (Cal)	114.4x	40.9x	39.01	27.9x
EV/EBITDA	33.6x	28.9x	28.4x	20.1x

Recommendation

BABA is the world's largest online and retail mobile commerce company by gross merchandise value (GMV). Alibaba has consistenly been increasing its value for end users by making it easier to do business anywhere through providing the fundamental technology infrastructure and marketing reach that enables firms to use the power of the internet to best engage with their customers. E-commerce transaction volume in China has been growing at CAGR of 11% (2011-2016) and is now projected to increase to a CAGR of 17% from 2017-2021 due to the rollout of 4G coverage nationwide which will drive the adoption of smartphones and better payment systems. BABA has benefited from this trend already as annual active buyers in BABA's China retail marketplace reached 466 million in Q1 2018, an increase of 12 million from the previous quarter and 10% YoY. BABA has also experienced a more significant increase in its mobile active user base during each of the last several years and quarters. The total number has most recently grown to 529 million as of June 2017 from 506 million in March 2017 and YoY this base has grown 24%. In addition to deriving the majority of their revenue from a growing industry, BABA's internet services affect the vast majority of Chinese users in some way. With large penetration rates across multiple platforms it manages, such as Taobao/Tmall (60%), UC/Shenma (31%) and Youku Tudo (80%); BABA's reach is vast. This also provides the company with an unparalleled amount of data that it can use to help merchants and other brands develop personalized strategies to expand their users and increase click-through rates thus improving profitability. BABA also has a signifcant advantage over potential competitors AWS and Azure in China with respect to its cloud computing business as it is already well established in the country ensuring a high probability of longterm margin potential. Therefore, it is recommended that BABA be added to the AIM International Equity Fund with a price target of $229.52 per share, representing a 27.79% upside to the current market price of the stock.

Investment Thesis

- **Increasing Income and Reinvestment.** BABA has continuously experienced a large growth in its income and revenue across all segments over the past several years due to a rapidly expanding user base and diversification of business. Topline revenue grew at 56% YoY beating estimates by over 6% and continuing the previous YoY increases of 29.30%, 43.32%, and 56.06% in 2016, 2015 and 2014, respectively. Core commerce BABA's largest segment grew 58% YoY and and adjusted EBITDA margin improved to 63% from 61% YoY. The margin growth remains below that of revenue due to BABA's continuous reinvestment in other areas of its business to continue its expansion, most recently through increasing its stake in Lazada to 81% and the consolidation of Intime. Additionally, gross margin for the company has remained consitently high and stable from reinvestment at 59.72%, 63.14%, and 65.98% in 2017, 2016 and 2015, respectively.

- **Cloud Computing Opportunities.** Cloud computing is projected to grow at a CAGR of 19% through 2020 with 74% of Tech CFOs believing it will have the most measurable impact on their business in that time. Alibaba Cloud is China's largest provider of public cloud services as measured by revenue and is continuing to expand at an impressive rate. As of June 2017, the total number of paying customers exceeded one million for the first time and segment revenue grew 96% YoY to US$359 million. The segments customer base spans a variety of areas including consumer brands, energy, financial institutions, healthcare, manufacturing, media and retail - indicating a universal appeal. While the segments EBITDA margins remain negative due to substantial reinvestment they have narrowed most recently to -7% in 2017 from 2016's -41% but this early investment will likely contribute to rapid future margin growth as it did for AWS.
- **International Expansion.** BABA's international revenue increased 136% YoY driven by Lazada and Aliexpress which combined have an active buyer base of 83 million. The company is also making headway in the US through its Gateway conference where over 3000 US small businesses, farmers, brands and entrepreneurs were educated on using Alibaba to sell their products in China. Companies that have successfully grown their business in China through BABA include Gerber, Stadium Goods and 100% Pure.

Valuation

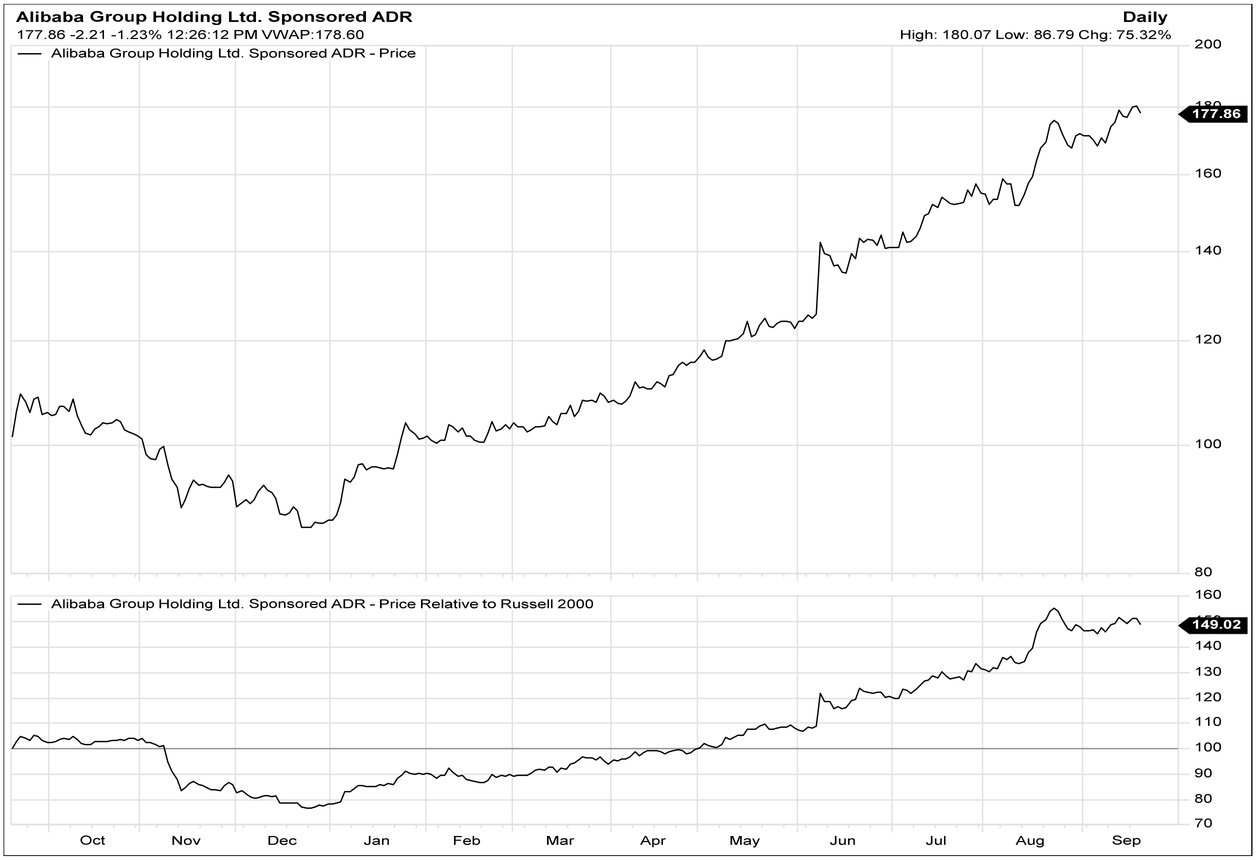
In order to reach an intrinsic value for BABA, a ten year DCF model was constructed. Using an averaged growth rate of 31.85% depreciating for the first seven years to a terminal growth rate of 2.00% for the remaining three, with a WACC of 12.41, an intrinsic value of $258.74 per share was reached. A sensitivity analysis was conducted using the terminal growth rate (1.50%-2.50%) and the WACC resulting in a range from $331.12-$207.07. Additionally, a P/E multiple valuation using a comparables average P/E of 29.23x, and BABA's EPS FY1 of $5.88 resulted in a valuation of $171.97. Finally, a P/B multiple valuation was calculated using the comparables average of 6.88x and BABA's 5-year historical average of 8.20x reaching a valuation of $150.70 per share. By weighting the three valuation models 70/15/15, a price target of $229.52 was reached representing a 27.79% upside. BABA does not pay any dividend.

Risks

- **Chinese Economic Slowdown.** The growth of the Chinese economy has slowed in recent years as China's GDP growth rate was 6.7% in 2016, down from 6.9% in 2015 and 7.4% in 2014. There have also been concerns on the relationships among China and other Asian countries as well as the trade relationship between China and the United States. Any continuing or worsening slowdown could significantly reduce domestic commerce in China.
- **Data Protection Risk.** BABA generates and processes a large amount of data, and the improper use or disclosure of data could harm its reputation having a material adverse effect on its business prospects. In addition to cybersecurity risk from hacking the PRC regulatory and enforcement rules for data security and protection are constantly evolving. It is expected that this area will receive greater attention and focus from regulators going forward, which would increase compliance costs, risks and challenges associated with data security and protection

Management

Daniel Yong Zhang is the CEO and Director of BABA and has been with the company since 2007. He was previously employed at PwC as a senior manager in their Audit and Business Advisory Division in Shanghai. Maggie Wei Wu is the CFO of BABA and has been with the company since 2007. Previously an audit partner at KPMG in Beijing and in 2010 was voted as best CFO in FinanceAsia's annual poll. Both company founders, Jack Yun Ma and Joe Chung Tsai remain with the company as Executive Chairman and Executive Vice Chairman respectively.



Peer Fundamentals

Name	Ticker	Revenues	ROE	ROA	Debt/ Equity	Est 5 yr NI growth
Alibaba Group Holding	BABA	25,919.81	43.60%	17.70%	31.25%	27.40%
Baidu ADR	BIDU	10,903.03	34.00%	19.50%	46.63%	13.70%
eBay	EBAY	9,157.00	25.30%	11.30%	53.10%	5.10%
Facebook A	FB	33,173.00	10.30%	9.10%	4.90%	24.70%
NetEase ADR	NTES	7,100.77	26.40%	20.20%	6.35%	23.00%
Tencent	700-HK	28,019.87	31.90%	15.50%	42.92%	33.40%
Peer Averages		17,670.74	25.58%	15.12%	30.78%	19.98%

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (mil)	P/S	P/E	EV/ EBITDA	P/B
Alibaba Group Holding	BABA	452,680	17.52	35.59	41.75	8.20
Baidu ADR	BIDU	81,978	7.55	33.46	25.16	7.80
eBay	EBAY	40,961	4.56	19.09	15.12	2.50
Facebook A	FB	502,249	15.39	32.64	25.77	7.70
NetEase ADR	NTES	35,703	5.05	18.38	13.17	4.30
Tencent	700-HK	406,153	14.53	42.58	35.69	12.10
		213,409	9.42	29.23	22.98	6.88

Source: FactSet

AIA Group Limited. (AAIGY)
September 22, 2017

Cathy Gong International Financial Services

AIA Group Limited. (NASDAQ: AAGIY) is the largest independent publicly listed Pan-Asian life insurance group – with a presence in 18 markets across the Asia – Pacific region. AIA was first established in Shanghai almost a century ago. It is a market leader in the Asia-Pacific region (ex-Japan) based on life insurance premiums and holds leading positions across the majority of its markets. The company offers individuals and businesses with products and services for insurance, protection, savings, investment, and retirement needs. AAGIY derives the majority of its revenue from Hong Kong (29.1% of total revenue), with an additional 16% and 13.1% coming from Thailand and Singapore respectively. The company was founded in 1919 and is headquartered in Hong Kong.

Price ($):	30.7
Price Target ($):	37.59
52WK H-L ($):	31.72 - 22.33
Market Cap (mil):	91,129
Insider Holdings	3%
Avg. Daily Vol (mil):	187,497.7
Yield (%):	1.4
ESG Rating	BB

Beta:	0.54
M-Term Rev. Gr Rate Est:	6.86%
M-Term EPS Gr Rate Est:	9.3%
Financial Leverage	30.84
WACC	7.51
ROA (%):	2.63
ROE (%):	11.57
ROIC (%):	10.98
Sales per Share	7.4

FY: Nov	11/30/2015	11/30/2016	11/30/2017	11/30/2018
Revenues	23,655.00	26,458.58	28,274.12	29,923.21
% Growth	6.19	11.85	6.86	5.83
Oper Inc	2847	4786	8129	8064
%Growth	-32.60	62.87	69.83	-0.79
Op Margin	13%	18%	29%	28%
EPS	0.88	1.40	1.47	1.63
P/E	27.1	11.7	22.3	22.4
P/B	2.45	2.09	2.81	3.12

Recommendation

Emerging Asia remains one of the most well-positioned regions in the global economy and has demonstrated proven abilities over the past eight years. Asia also has the ability to augment domestic drivers of growth through continued increases in productivity as well as fiscal and monetary stimulus. Asian policymakers have the ability, capacity and resolve to respond proactively and effectively over time. Asian macroeconomic fundamentals remain resilient and continue to deliver strong growth supported by domestic drivers of demand. AIA's core business is to offer products and services to Asian households that enhance their financial security and provide them with peace of mind as their financial needs evolve over their lifetimes. Far-reaching economic expansion and rapid urbanization in Asia are disrupting traditional family support networks and community welfare systems. State intervention through the provision of medical, welfare or retirement benefits is likely to remain limited in Asia. As these markets are growing the individual wealth, life insurance and investment products are now more affordable. This provides an opportunity for the life insurance industry in Asia which will play a fundamentally important role in the economic emergence of developing societies. In 2016, AIA directed US$120 billion of investments into local financial markets. With a 42% increase in the value of new business driven by higher activity and productivity levels in their agency distribution, combined with excellent growth in their partnership distribution channel, AIA has performed better in Hong Kong in 2016. To leverage this fund flows from new business, AIA has established an internal asset management company based in Singapore. The strong growth in operating profit after tax of 15% to 3.8981 billion has allowed operating return on shareholders' allocated equity (ROE) to rise to 14.1 per cent in 2016. Further profit margin expansion is expected as product mix, scale and active manage are leveraged. It is recommended that AAGIY be added to the AIM International Equity Fund with a target price of $37.59, representing a 22.44% upside. AAGIY pays regular biyearly dividends, yielding 1.3%.

Investment Thesis

- **Growth opportunities.** In 2016, the final dividend has stepped up to 63.74 HKD cents per share. This brings the total dividend for 2016 to 85.65 HKD cent per share, an increase of 23% compared to 2015 as the sales revenue remains strong. A further uplift from the new higher base established last year reflects the strength of AAGIY's results and their confidence in AIA's future prospects. AIA has been in Asia for close to a century and is exceptionally well positioned to benefit from the demographic, social and economic progress across Asia. The powerful structural economic, social and demographic changes taking place across the region present an unparalleled opportunity for the Asian life insurance industry and one which AIA, with their distribution reach, trusted brand, financial strength and people capabilities, is in an advantaged position to capture.

- **Effective financial management and strong capital position.** As at November 2016, the solvency ratio for their principal regulated operating company AIA Co. remained strong at 404% and the Group's free surplus above required regulatory capital was US$9.8 billion. Effective financial management and leveraging their financial strength have ensured their strong capital position.
- **Diversified markets.** By offering a range of products and services including life insurance, accident and health insurance and savings plans, AAGIY has a presence in 18 markets in Asia-Pacific region through wholly-owned branches and subsidiaries. Countries and regions including Hong Kong, Thailand, Singapore, Malaysia, China, Korea, the Philippines, Australia, Indonesia, Taiwan, Vietnam, New Zealand, Macau, Brunei, and Cambodia, which comprises the majority of emerging markets. Through an extensive network of agents, partners and employees across Asia-Pacific, AIA serves the holders of more than 30 million individual policies and over 16 million participating members of group insurance schemes.

Valuation

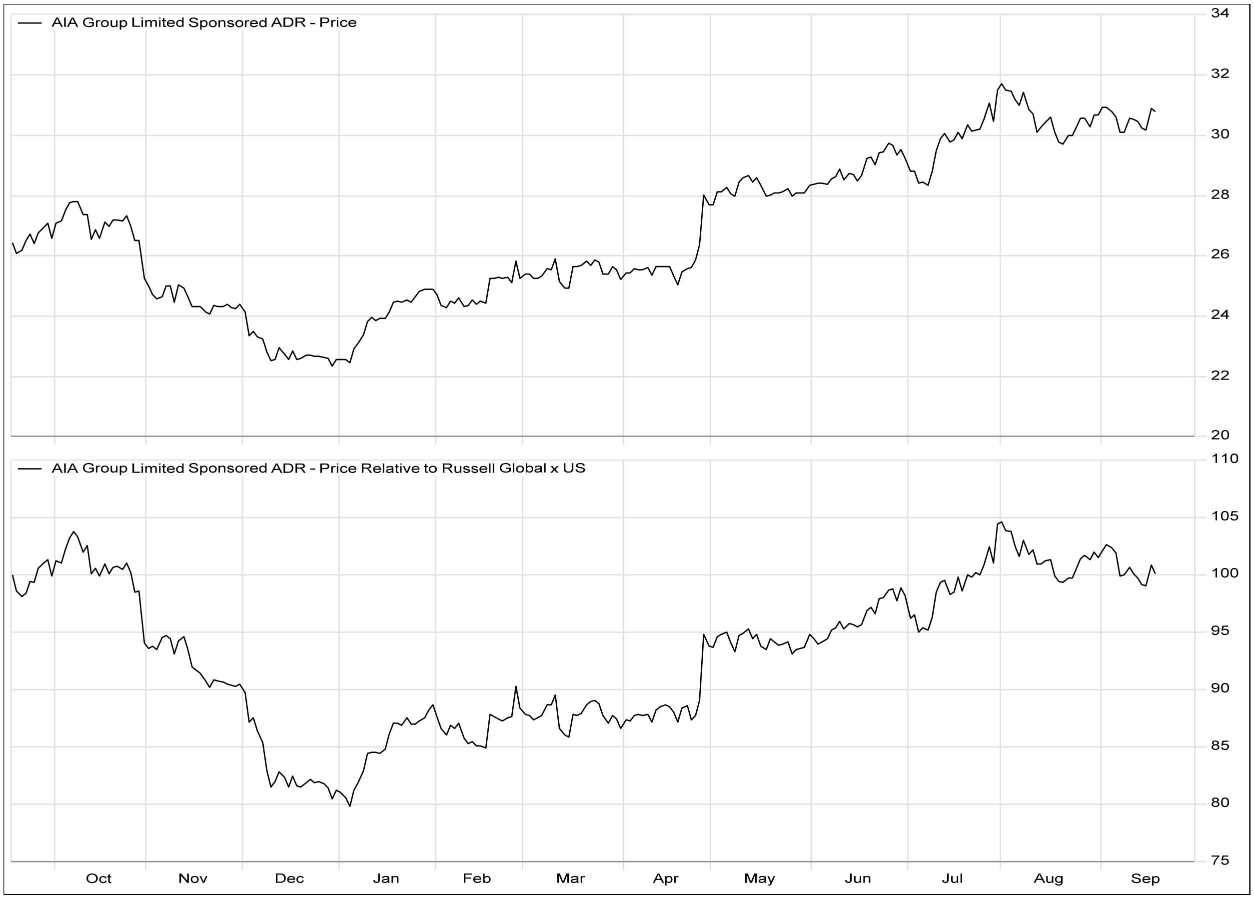
To reach an intrinsic value for AAGIY, a P/E model was conducted. A peer average P/E multiple of 22.17x and P/B mutiple of 1.78x were used, resulting in a valuation of $32.66. A excess return model was used to reach the intrinsic value of $35.90. By weighting the two valuation models equally, a price target of $37.59 was reached, resulting in a 22.44% upside.

Risks

- **Privacy and data security.** As a major provider of retail insurance, the AIA Group collects extensive personal data and is exposed to regulatory and reputational risks associated with data security breaches. While the group has a data protection officer responsible for data access issues and employee trainings, there are gaps in its privacy policies related to a breach response plan, information system audits, and overall management accountability for breaches.
- **Protection gap.** This indicates the shortfall in the levels of insurance cover needed to safeguard the population against the risks of early mortality, disability, out-of-pocket medical expenses and poverty in old age. There is a wide diversity of cultures and languages across 18 markets and each market is at a different stage of economic development. Faced with geopolitical risks and different phases of economic growth in different countries, this is the challenge that AIA seeks to meet, with an emphasis first and foremost on providing financial protection against mortality, as the most serious threat to family welfare and the most immediate customer need.

Management

AIA Group Limited was founded by Cornelius Vander Starr in Shanghai in 1919. Keng Hooi Ng is the current President and CEO of the company and has held his positon since 2010. Garth Jones, CFO, has been with the company since 2011. The newest addition to the management team, Mark Konyn joined the company in 2016 as Group Chief Investment Officer.



Source: FactSet

Peer Fundamentals

Name	Ticker	Market Cap	ROE	ROA	Debt/Equity	Est 1 yr NI growth
AIA Group Limited Sponsored ADR	AAGIY	91,129	12.94	1.40	15.56	54.73
MetLife, Inc.	MET	51,504	1.18	4.59	35.63	-84.81
China Life Insurance Co. Ltd. Class H	671897	874,122	6.05	0.74	44.55	-48.56
New China Life Insurance Co., Ltd. Class H	B5730Z	189,089	8.56	1.78	90.07	-45.57
Ping An Insurance (Group) Company of China, Ltd. Class H	B01FLR	1,151,904	17.64	3.94	266.99	9.04
Peer Averages		566,655	8	2.76	109.3	-42.5

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap	P/E	P/B	P/TBV	Div Yld
AIA Group Limited Sponsor	AAGIY	91,129	12.72	1.43	1.88	2.96
MetLife, Inc.	MET	51,504	539.33	0.74	0.86	3.30
China Life Insurance Co. Lt	671897	874,122	28.58	1.89	1.93	1.15
New China Life Insurance (	B5730Z	189,089	25.79	2.16	2.07	1.20
Ping An Insurance (Group) (	B01FLR	1,151,904	15.08	2.31	2.69	1.40
Peer Averages		566,655	152.2	1.776066	1.9	1.8

**Removed For Relative Valuation Analysis*

Source: FactSet