Applied Investment Management (AIM) Program

AIM Class of 2013 Equity Fund Reports
Fall 2012

Date: Thursday, October 25, 2012 Time: 6:00 p.m. – 7:00 p.m.
Road Show Location: NYC Marquette CIRCLES,
New York Yacht Club, 37 West 44th Street, New York

Student Presenter	Company Name	Ticker	Price	Page No.
Elizabeth Buckton	Novavax, Inc.	NVAX	$2.21	2
Michael Schwoerer	Akbank T.A.S.	AKBTY	$8.95	5
Yatian Liu	Smith & Nephew	SNN	$51.77	8
Varun Varma	Pacific Rubiales Energy Corp	PEGFF	$25.12	11

Thank you for taking the time today and participating in the AIM 'road show' at the NYC Marquette CIRCLES event. 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. Again, thank you for allowing us the opportunity to present at the NYC Marquette CIRCLES event.

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Novavax, Inc. (NVAX)
October 25, 2012

Elizabeth Buckton — Healthcare

Novavax, Inc. is a clinical-stage biopharmaceutical company that focuses on developing recombinant vaccines for infectious diseases using its virus-like particles (VLP) and recombinant nanoparticle vaccine technology. Currently, NVAX is developing vaccine product candidates to protect against various circulating strains of pandemic influenza, including H1N1 and H5N1 influenza, as well as seasonal flu and respiratory syncytial virus (RSV). In the international space, the company has a joint venture with Cadila Pharmaceuticals Ltd. and a licensing agreement with LG Life Sciences to develop pandemic and seasonal influenza vaccine candidates for India, South Korea and other Asian countries. Headquartered in Rockville, Maryland, NVAX has 112 employees and was founded in 1987.

				FY: December	2011A	2012E	2013E
Price ($) (10/19/12)	2.21	Beta:	1.8	Revenue (Mil)	15	29	41
Price Taget ($):	3.85	WACC	17.5%	% Growth	4221%	100%	38%
52WK Range ($):	1.12-2.44	M-Term Rev. Gr Rate Est:	40%	Gross Margin	52.3%	46%	47%
Market Cap:	262M	M-Term EPS Gr Rate Est:	N/A	Operating Margin	-146.4%	-78.2%	-53%
Float	119M	Debt/Equity	0.2%	EPS (Cal)	-$0.14A	-$0.16E	-$0.15E
Short Interest (%):	8.8%	ROA:	-27.4%	FCF/Share	$0.18	$0.05	$0.05
Avg. Daily Vol:	1,075 K	ROE:	-34.3%	P/S (Cal)	17.84	8.92	6.46
Dividend ($):	N/A			EV/Sales	16.06	8.60	6.94
Yield (%):	N/A						

Recommendation

NVAX's top-line data for their influenza and RSV vaccines have resulted in favorable contracts and partnerships, which will support them through the remainder of the development phase. The U.S. Department of Health and Human Services' Biomedical Advanced Research and Development Authority (BARDA) contract, as well as the partnership from an international nonprofit health organization (PATH), has allowed NVAX to increase its value within the clinical vaccine space. These partnerships and monetary aid are invaluable to the firm in order to prevent stock dilution. Partnerships are also important to incur NVAX's fixed costs, which is their largest burden since variable costs for vaccine manufacture are truly minimal at just 15%. NVAX's unique insect cell production technologies is expected to provide increased immunogenicity as well as an opportunity to produce vaccines at a speed and cost scale that is not possible with conventional production processes, further decreasing variable costs. Proof of this efficiency can be seen in 2009, when NVAX demonstrated the ability to produce an H1N1 vaccine in just 11 weeks while companies like GlaxoSmithKline that took 6 months to make the same vaccine. Of course, the key to their commercial success will be their ability to complete manufacturing plants at a lower cost of capital. This will allow for global expansion, especially into countries with higher pandemic risks. As continued favorable news is received regarding their influenza vaccines and RSV vaccines, the firm's revenue should grow at a 40% CAGR. It is recommended that Novavax, Inc. be added to the AIM Equity portfolio with a price target of $3.85, representing a 74% upside.

Investment Thesis

Efficient VLP Technology. Unlike the traditional egg-based vaccine process that most pharmaceutical companies employ, NVAX's insect cell technology is advantageous for the following reasons: rapid expansion of capacity allowing for faster availability of product for new strains, suspension of cell culture for easy scale-up, and there is a low risk of microbial product contamination. The virus-like particles that are used to deliver antigens in NVAX vaccines may increase immune response. Because of NVAX's efficiencies, in March 2011, they were awarded a $180M contract from BARDA for the advanced clinical and manufacturing development of recombinant vaccines.

RSV Vaccine. Respiratory syncytial virus is a common virus that leads to mild, cold-like symptoms in adults and older healthy children; however RSV can be serious and often deadly for infants, and especially to those in certain high-risk groups like the elderly. Domestically, RSV in children leads to 75-125K hospitalizations annually and the average cost for hospitalization is $9,000. In high-risk adults, RSV causes 14K deaths and 175K hospitalizations annually with an average hospital bill of $11,000 per episode. Currently, there are no vaccines for RSV and NVAX is spearheading the creation of an RSV vaccine, which targets a $1B market opportunity. Phase II has begun in women of childbearing age and will be funded with the help of the not for profit organization PATH's $2M contribution.

Influenza Vaccines. The influenza vaccines are the furthest along, entering into Phase II trials due at the end of 3Q2012. Domestically this is a $3B market with the CDC encouraging 100% vaccination. Assuming a more realistic immunization of 150M in the U.S., NVAX has the ability to capture 40M units/year, and since biopharmaceutical companies have no incentive to improve/increase productions of their influenza vaccines, this estimation could be conservative.

Valuation

Using a 5-year DCF with a computed WACC of 17.5% and applying a 4.9x P/S and a 5.7x EV/Sales to the terminal growth, share prices of $3.69 and $3.87 were computed. The model grew revenues in the near term at an average of 40%. In addition, a best case/worst case scenario analysis was conducted to the DCF, which yielded intrinsic values ranges from $1.50 to $6.50. Weighing both of the DCF's 35% and the scenario analysis 30%, a price target of $3.85 was established, representing a 74% upside. The firm does not pay a dividend.

Risk Factors

Uncertainty with Future Gains. Since their inception, NVAX's expenses have exceeded their revenues. NVAX is entering into a period of increased production and expenses will continue to increase, as a result of higher research and development efforts to support vaccine development. Because they have no products on the market, it cannot be predicted when, if ever, NVAX will be able to achieve profitability.

Uncertainty with FDA Approval. There is no guarantee the FDA will view the development of NVAX seasonal influenza vaccine as meeting an unmet medical need. If this occurs, it is likely that NVAX will need to conduct larger and more expensive efficacy clinical trials and that licensure of the seasonal vaccine will be materially delayed for a year or more, assuming such licensure occurs at all.

Unfavorable Economic Conditions. Traditionally, biopharmaceutical companies fund their expenditures through raising capital in the equity markets. Uncertainties in these markets have severely restricted raising new capital. Since NVAX is in early development with their products, they require significant capital. If economic conditions become worse, NVAX's access to the capital markets could be adversely affected.

Management

Since the BARDA award, Novavax restructured its clinical and commercial management team in order to prepare for continuing progress in the clinical development of its vaccine candidates and for their eventual regulatory approval. In April 2011, Novavax named Stanley Erck as its new President and CEO. Mr. Erck has been a Director since 2009 and the Board Chair since February 2010. In January 2011, Dr. Greg Glenn joined Novavax as Senior VP and Chief Medical Officer.

Ownership

% of Shares Held by All Insider and 5% Owners:	33.12%
% of Shares Held by Institutional & Mutual Fund Owners:	79.71%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Fidelity Management & Research	16,715,426	12.50%
RA Capital Management LLC	13,200,000	9.87%
Cadila Pharmaceutical LTD	12,500,000	9.35%
Vanguard Group Inc.	5,696,223	2.64%
Blackrock Fund Advisors	3,526,841	2.46%

Source: Bloomberg

Akbank T.A.S (OTC: AKBTY)
October 25, 2012

Michael Schwoerer International Financial Services

Akbank T.A.S., together with its subsidiaries, provides consumer, commercial, small and medium enterprises (SME), corporate, and private banking services. The company also offers financing, non-banking financial services, capital markets, leasing, brokerage, and portfolio management services. AKBTY conducts overseas operations through its subsidiaries in Germany (Akbank AG) and Dubai (Akbank Dubai Limited), as well as a branch in Malta. In 1H12, revenue distribution for Akbank was: Retail 34%, Treasury and Investment Banking 32%, SME 19%, Corporate 11%, and Private 4%. Akbank is 49% owned by Sabanci Holdings, 9.9% by Citigroup, and 41.1% is free floating. The company operates 951 branches and 20 regional directorates in Turkey along with approximately 4,000 ATMs and 296,000 POS terminals. Akbank T.A.S. was founded in 1948 and is headquartered in Istanbul, Turkey.

Price($): (10/12/12)	8.95	Beta:	0.928	FY:	2012A	2013E	2014E
Price Target ($):	11.62	WACC	9.51%	Revenue (mil)	6,657.60	7,663.00	8,046.00
52WK H-L ($):	9.10-5.70	M-Term Rev. Gr Rate Est:	5.00%	Growth	5.00%	5.00%	6.00%
Market Cap (mil)	17,900.00	M-Term EPS Gr Rate Est:	7.00%	Operating Margin	50.14%	52.93%	50.93%
Float (mil):	1,550.00	Debt/Equity (%)	228.3	Pretax Margin	33.00%	38.76%	38.74%
Shares Outstanding (mil)	2,000	ROA:	1.95	EPS (Cal)	0.56	0.65	0.75
Avg. Daily Vol:	19,523	ROE:	14.07	P/E (Cal)	9.49	10.88	12.63
Dividend ($):	0.1	Net Interest Margin	3.68	NIM	3.68	4.22	4.56
Yield (%):	1.10	Tier-1 Capital Ratio	15.84	P/B	1.33	1.44	1.63

Recommendation:

Plain and simple, Akbank T.A.S is emerging as a leading bank in one of the world's fastest growing and most prosperous countries. In the first half of 2012, Akbank experienced significant growth in key areas. Specifically, the bank saw 11.5% growth in lending, 5.9% growth in deposits, and fee income generation grew 5.5% YoY. To go along with this impressive growth, the bank also boasts a robust capital structure, with a capital adequacy ratio at 15.8%, a Tier-1 capital ratio of 14.9%, and the highest free equity among its peer group (18.5B TL). With financial statistics like these, and the fact that the bank has been predominantly been ranked #1 or #2 among Turkish banks in profitability for the last 20 years, it's no wonder that Brand Finance 2012 named Akbank the "Most Valuable Banking Brand in Turkey." Becoming a high profile bank, the macro environment in the country of domicile plays a critical role in determining the continued success of the bank. In the case of Akbank and Turkey, the possibilities look to be quite favorable. Currently, Turkey is the 18th largest economy in the world and potentially has a huge growth opportunity due to the favorable demographics within the country. Turkey is also geographically favored with close proximity to Europe. With neighboring countries having an estimated 2015 GDP of $26T, this should lead to more exports and a growing GDP for Turkey as well. With that background, it is recommended that Akbank T.A.S be added to the AIM International Equity Fund with an intrinsic value of $11.62, which represents an upside of 28%. AKBTY also pays a dividend of 1.10%.

Investment Thesis

- **Innovation Leader.** With the digital craze engulfing the globe, AKBTY has separated from their regional peers because of the bank's exceptional IT capabilities and innovative technologies that rival the biggest banks in the world. As media-driven as the US seems, Akbank actually ranks 3rd worldwide in social media with over 1M followers between Facebook and Twitter. Akbank created the first mobile banking application in Turkey in 2005, which featured mobile loans. They have followed this up with web loans and SMS loans available to customers. Over the past several years they have continued to invest in new IT innovations - adding a mobile banking app for smart phones that has had over 350,000 downloads. Because of these technology advances, the bank has seen revenues generated from alternative delivery channels rapidly grow.

- **Growing Market Share.** The banking industry in Turkey is fairly competitive (the country has 44 banks with 7 of them controlling 77% of the assets). Akbank is the industry leader and as the economy has been growing over the past half year, the bank has been able to gain market share in all areas to establish itself as a true leader. Market share has gone up by 60bps in total loans, 70bps in consumer loans, 80 bps in mortgage loans, 170bps in credit cards, and 40bps in customer deposits.
- **Strong Ownership.** As mentioned previously, AKBTY is majority held by Sabanci Holdings, one of the two largest conglomerates in Turkey, which is known for having success in forming joint ventures with some of the most established companies in the world. Akbank is the flagship of Sabanci, as two-thirds of the group's net profits come from the bank. Also mentioned previously, Akbank benefits from being partly owned by a major US financial institution, Citigroup, which has held a 20% strategic equity stake in Akbank between January 2007 and May 2012 – since then Citigroup reduced its ownership to 9.9%. This partnership has enhanced consumer banking activities with joint ATM usage and credit card applications such as Citi Axess and Citi Wings. Additionally, this relationship has aided in creating joint corporate banking and project finance business opportunities for Akbank.

Valuation

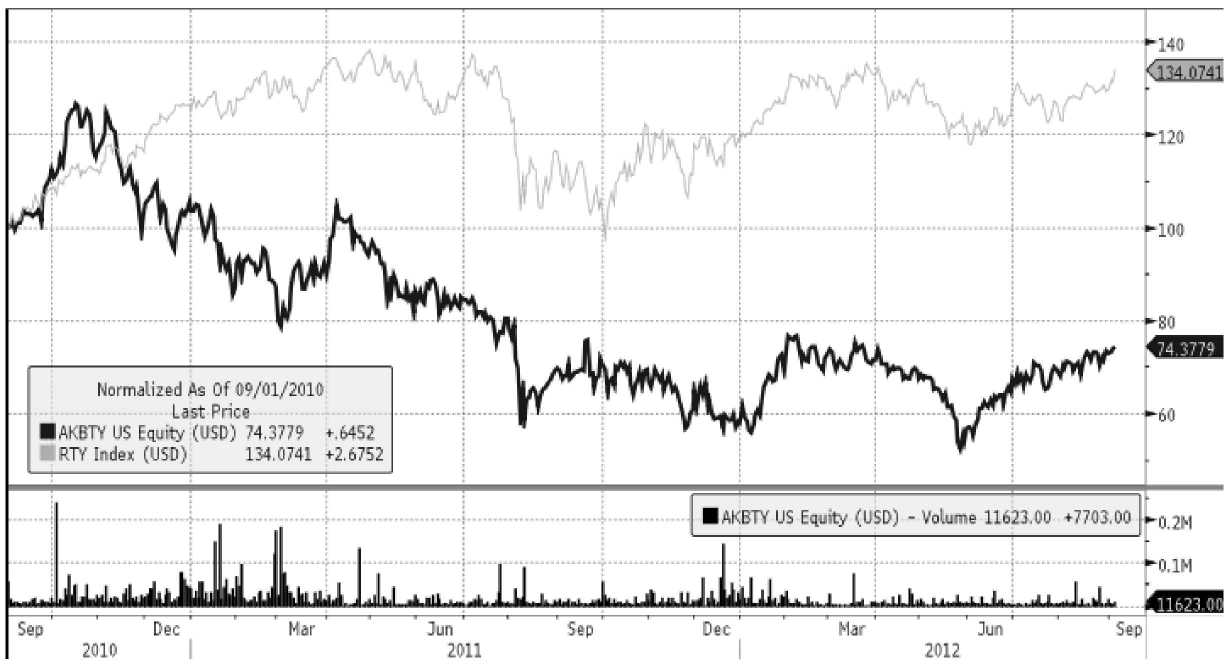
To find the intrinsic value of AKBTY, a Gordon Growth Dividend model, a P/BV calculation, and a 5-year DCF model were used. For the dividend growth model, a 7% dividend growth rate with a 3% terminal rate was utilized to reach an intrinsic value of $11.16 per share. Running a sensitivity analysis that adjusted the annual growth rates and the terminal rate, a range of $9.46-$14.98 was obtained. For the P/BV calculation, a 2012 core equity value and a target P/BV ratio of 2x was used to reach an intrinsic value of $9.88. For the DCF model, a discount rate of 15%, along with a terminal rate of 3% and a revenue growth rate of 5% were used to yield an intrinsic value of $17.19. Weighing the approaches by 50%, 35% and 15%, respectively, resulted in a final intrinsic value of $11.62 per share, which represents a potential upside of 28%. Akbank's dividend offers a yield of 1.10%.

Risks

- **Externally Financed Demand Boom.** Capital inflows are dominated by potentially volatile financing, and short-term external debt has climbed sharply to 15% of GDP. The currency has recently come under depreciation pressure, and inflation has risen. About a third of the banking sector in Turkey has links to Euro-area banks under stress, but direct funding is low.
- **Funding and Credit Growth Risk.** In the near term, there are risks of a collapse of external funding (which could push Turkey into recession) and a deteriorating domestic economy. Alternatively, if the strong credit growth were not to slow down, this would pose risks further down the line, given that credit booms are often associated with weakened risk management, and subsequent deterioration in bank balance sheets.
- **Structural Maturity Mismatch.** The large majority of deposits have maturities of less than three months, and the banks also rely significantly on short-term CBRT repo funding. Although corporate loans are also generally of short maturity, banks have a significant overall maturity mismatch, exposing the sector to funding rollover and interest rate risk. The high concentration of deposits adds to the vulnerability, even though the Turkish experience has been that deposits have been stable, at least for now.

Management

Akbank has always prided itself on its outstanding management. The CEO, Hakan Binbasgil has 26 years of experience and is a graduate of Bogazici University and Louisiana State University. The bank has strong corporate governance with an effective Board of Directors Oversight with risk functions that report directly to the Board.



Source: Bloomberg

Ownership

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

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
World Asset Management	228,511	10.57%
Gutmann Kapitalanlage AG	46,561	2.42%
Hemenway Trust Co. LLC	20,596	1.37%
HSBC Asset Management Singapore	16,266	0.84%
Comerica Foreign Equity CIT	66,226	4.23%

Source: Bloomberg

Smith & Nephew (SNN-ADR)
October 25, 2012

Atena Liu International Healthcare

Smith & Nephew (NYSE-SNN) is a medical technology company that designs and manufactures devices in the fields of orthopedics (54.1% of sales), endoscopy (22.9%), and advanced wound management (22.8%). Established in 1856, the company has established leading market share positions in arthrocopy, advanced wound management, orthopedic reconstruction, and other areas. With presence in more than 90 countries, Smith & Nephew derives 41% of its revenues from the United States, 40.2% from Continental Europe, 10.5% from UK, and the remainder from the rest of the world. In the US, the products are marketed directly to healthcare providers, hospitals, and other healthcare facilities. In most other established markets, each business segment manages an employee sales force directly, and ships to both healthcare providers and wholesale distributers. In emerging markets, SNN operates through direct selling and market operations, and through distributers. The company is based in London, UK and has been on the London Stock Exchange since 1951.

				FY: December	2011A	2012E	2013E
Price ($) (10/19/12)	51.77	Beta:	0.86	Revenue (Mil)	$ 4,270.0	$ 4,355.4	$ 4,529.6
Price Taget ($):	64.76	WACC	10.0%	% Growth	7.8%	2.0%	4.0%
52WK Range ($):	42.63-56.32	M-Term Rev. Gr Rate Est:	7.2%	Gross Margin	73.3%	74.0%	75.0%
Market Cap:	9.32B	M-Term EPS Gr Rate Est:	7.6%	Operating Margin	21.3%	22.3%	22.8%
Float	178.34M	Debt/Equity	10.1%	EPS (Cal)	$3.58A	$3.70E	$3.94E
Short Interest (%):	20.9%	ROA:	12.3%	FCF/Share	$3.63A	$3.28E	$3.43E
Avg. Daily Vol:	75.7M	ROE:	19.5%	P/E (fwd)	14.01x	14.20x	14.01x
Dividend ($):	0.99						
Yield (%):	1.9%						

Recommendation:

In the volatile European stock market, Smith & Nephew offers greater stability and should be one of the firms that will benefit from the aging population as well as the reviving economy. With a gross margin of 21.3% (vs. the peer average of 18.4%) and a debt/assets of 6.78% (vs. 21.8%), Smith & Nephew appears to be a financially sound company with compelling margins. The company is a leader in all three of its business segments with a portfolio of more than 1,000 products. According to management, SNN has 21% share of global arthroscopy segment and has a leading market share in joint reconstruction (hip, knee and shoulder joints). In FY2011, sales of advanced wound management products grew at more than double the company's growth rate (7.1% in GBP), while sales in endoscopy products grew by 5.4%. The new CEO, Olivier Bohuon, has championed new growth initiatives since January 2011, specifically implementing a cost-cutting program and increasing spending in R&D. SNN's focus towards innovation has generated about 4,000 patents (both approved and pending) and 4,000 trademarks in its field of operation. This year the company spun off its Clinical Therapies business unit to better focus on its core therapy areas and acquired Lifemodeler, a biomechanical software company. There is also an increasing opportunity for the company to issue a share buyback program, which will provide substantial EPS upside. Due to the above mentioned reasons, Smith & Nephew is recommended to be added to the AIM International Equity portfolio with a target price of $64.76, providing an upside of 25.1%. The company also offers a dividend of $0.99/share, generating an annualized yield of 1.92%.

Investment Thesis

- **Leading market position with a diversified portfolio.** Smith & Nephew is a well-diversified firm with a broad product portfolio and a wide presence in over 90 countries. No customer consists of more than 5% of SNN's total revenues. The firm's segment market share in orthopedics, endoscopy, and advanced wound management are 11%, 21%, and 18%, respectively. Advanced wound management, whose products are targeted at chronic wounds associated with the older population, is projected to grow above the market rate as it targets consumers in the emerging markets who are experiencing an increase in diabetes-related ulcers due to the introduction of western diets.

- **Pipeline of new products with established strategic alliances with distributers.** The firm's ongoing approvals of new products in multiple countries provide a significant upside potential. Examples of new products include a dual mobility hip and a new legion hinged knee. SNN has also entered into various strategic alliances relating to product development, distribution, and joint marketing, which is a crucial link in the chain.
- **Future growth in medical technology industry.** Large MedTech companies tend to be in a better position to achieve economies of scale since companies in this industry usually have higher fixed costs of distribution. According to a research report done by EvaluationMedTech, MedTech will be the fastest growing area within the healthcare sector, growing at a 4.4% CAGR through 2018. This trend corresponds to the accelerating aging population, as well as the need to cut costs in healthcare. As one of the largest international healthcare devices provider, SNN is poised to outgrow its peers from such trends.

Valuation

To find the intrinsic value of SNN, a ten-year DCF was conducted. The FCF terminal growth rate was set at 5% given the accelerating increase in global aging population. A sensitivity analysis accounted for variations in WACC and EV/EBITDA. A WACC of 10% was used (vs. 7.85% of peers) and yielded an intrinsic value of $65.99. An EV/EBITDA approach was also used. Using an EV/EBITDA ratio of 7.17x, an intrinsic value of $59.83 was generated. Weighing the two values at 80/20, a price target of $64.76 was established, representing a 25% upside.

Risks

- **Slowing demand in orthopedics.** There have been concerns over the mellow orthopedic industry. Orthopedic surgeries can be viewed as a "discrete" expense for consumers and are usually pushed back until the consumer is in a better financial situation. The most recent piece of negative news is with regards to the substantial decrease in one of its most popular products, BHR Hip Resurfacing system (2.4% of sales)
- **Global economic slowdown affects key markets.** In the near-term, there will be no material changes to the reimbursement environment in the US, Europe, or Japan. The demand for elective surgery also decreases with consumer sentiment. The European market presents great uncertainty. The slowdown of the economy can substantially affect the sales of SNN. Also, European countries' austerity measures could negatively impact SNN's business, such as the ongoing pricing pressure.

Management

Olivier Bohuon, CEO. Mr. Buhuon joined the Board and was appointed CEO in April, 2011. Olivier has extensive international experience within the healthcare industry. Before joining Smith & Nephew, he was the CEO of Pierre Fabre, served as the President of Abbot Pharmaceuticals based in US, as well as the president of GlaxoSmithKline.

Adrian Hennah, CFO. Mr. Hennah joined the Board as CFO in June 2006. He has had extensive financial and management experience in a number of companies, such as GlaxoSmithKline and Invensys.

John Buchanan, Chairman. Mr. Buchanan has been the non-executive chairman of Smith & Nephew since April 2006. He was appointed as an independent Non executive deputy chairman in 2005. He is the deputy chairman of Vodafone Group Plc and a non-executive director of AstraZeneca PLC and BHP Billiton. He also served as the group chief financial officer of BP p.l.c.

Ownership

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

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Fisher Investments	1,028,693	0.57%
Thornburg Investment Management	764,329	0.42%
JP Morgan Chase	669,783	0.37%
Invesco	440,717	0.24%
Toronto Dominion Bank	418,761	0.23%

Source: Bloomberg

Pacific Rubiales Energy Corp (PEGFF)
October 25, 2012

Varun Varma — International Energy

Pacific Rubiales Energy (PRE) (OTC: PEGFF) is an international pure play independent E&P company. Currently, PRE generates its revenue from Colombian oil fields, but has recently ventured exploration into frontier locations in Peru, Guatemala, and Brazil. The company's flagship oil fields of Rubiales Field (60%) and Quifa (25%) in Colombia account for most of the production resources. The firm's production focuses predominantly in heavy oil (87%), natural gas (10%) and light oil (3%). This focus has allowed PRE to become the largest operator and producer of heavy oil in Colombia. In 2008, a merger of Pacific Stratus & Petro Rubiales created Pacific Rubiales Energy. PRE employs 1,870 internationally with headquarters in Toronto, Canada.

				FY: Dec	2011A	2012E	2013E
Price ($): (10/19/12)	25.12	Beta vs SPADR:	1.14				
PriceTarget ($):	33.00	WACC	11.92%	Revenue (Mil)	2,909	3,820	4,774
52 WK H-L ($):	31.36-17.45	M-Term Rev. Gr Rate Est:	21.3%	% Year Growth	114.47%	31.29%	25.00%
Market Cap (mil):	7,108	M-Term EPS Gr Rate Est:	24.7%	Gross Margin	42.61%	44.57%	43.00%
Float (mil):	286.13	Debt/Equity:	35.6%	Operating Margin	35.82%	36.18%	33.00%
Short Interest (%):	0.64%	ROA:	11.8%	EPS (Cal)	$2.00	$2.77	$3.74
Avg. Daily Vol (mil):	17,769	ROE:	22.2%	FCF/Share	$0.41	$1.62	$2.35
Dividend ($):	0.423	Proven Reserves (mBOE)	407	P/E (Cal)	9.45	11.90	8.82
Yield (%):	1.68%	Production (BOE/d)	93,000	EV/EBITDA	3.75	4.55	4.15

Recommendation:

Colombia is now the third largest supplier of oil in Latin America behind Brazil and Venezuela. Colombia is experiencing an oil boom with total production nearly doubling in the last six years from 525,000 BOE/d in 2005 to about 914,000 BOE/d in 2011. The Colombian Energy minister expects the country's production to exceed 1m BOE/d by the end of 2013. PRE operates in the largest oil field in Colombia, where it produces 60% of Colombia's heavy oil. PRE has strategically positioned itself to become one of the fastest growing Latin American oil companies in terms of production. The company is fundamentally strong with some of the largest reserves in Colombia, but is being heavily driven down by the market for reasons outside of its control. There have been delays in environmental licenses and permits issued by the Colombian government to increase exploration and production of new fields. It is a risk that every E&P company in Colombia is facing; however, the government is not limiting the amount of permits. The delay is due to the explosion of activity in Colombia's oil industry and record permit requests, which the government was capable of handling. The permits should be issued soon, and will allow the company to fully capitalize on its potential production assets that have been delayed. For these reason and favorable valuation, it is recommended that PRE be added to the AIM International Equity Fund with a price target of $33, which offers a potential upside of 30%.

Investment Thesis

- **Strong Colombian Production/Reserve Growth.** PRE has consistently grown its production in Colombia since 2007, and is expected to have a production CAGR of 20-25% by 2015 from declared reserves. Currently, PRE produces 93,000 BOE/d, net after royalties. The firm looks to double its production volume organically through continued expansion and investment in exploration and production operations. The organic growth will come from PRE successfully realizing their reserve base, which has doubled over the last couple years to 407 Mboe in 2P reserves and ~78% of those being proven reserves. Its continual dominance in the Colombian heavy oil market gives PRE a niche and competitive advantage compared to its peers.

- **International Diversification of Assets.** Besides the continued growth in the heavy oil market in Colombia, PRE is expanding into Peru, Guatemala, and Brazil. They have made 6 recent acquisitions in a variety of oil blocks in those nations, and could make more in the following year. They are looking to diversify their asset base in order to account for the potential depletion of their flagship oil fields in Colombia. The potential for the exploration in these frontier markets to be successful is very positive for PRE. They are acquiring assets in Latin America that will allow them to replicate the niche model used in Colombia's heavy oil market.

- **S.T.A.R. Production/Recovery Technique.** The STAR technique helps increase the recovery rate of oil from wells by 15-40%. Right now it is in a pilot stage to determine the effectiveness of the technique. There have been impressive preliminary results with increase of 2,000 bbl/d. However, there are secondary techniques that PRE is working on that will allow increased recovery rates from the wells in case the STAR technique is not successful. The STAR process injects steam into the well, followed by nitrogen and finally with air to increase amount of oil recovered from the wells. There is potential for this technique to be used in PRE's entire heavy oil wells and help boost the production volume.

Valuation

To value PRE, a 5-year DCF methodology was used along with an EV/EBITDA multiple methodology. Using a WACC of 11.9% along with a terminal growth rate of 2.5% resulted in a valuation of $37. The EV/EBITDA methodology applied a blended peer multiple of 4.0x against the estimated 2013 EBITDA of $2.175B with a valuation of $29. Weighing the DCF 50% and the EV/EBITDA multiple 50%, the target price of $33 was achieved, yielding an upside of 30%. The firm also pays a dividend of $0.42, yielding 1.7% and looks to maintain this dividend going forward.

Risks

- **Unexpected Disruptions in Production.** Delays or stops in production are normal in order to perform maintenance on existing production assets. Conversely, any unexpected delays or stops in the production can have a significant impact on revenues due to reduction in production volumes. Recently, the biggest disruption has been the uncertainty with environmental permit issuance by the Colombian government. This uncertainty delays further exploration and production of oil in the area, which has caused PRE to miss production targets.
- **Security Issues Around Assets.** Colombia is known historically to have an unstable political and social environment due to illegal activities within the country. This instability has led to guerrilla warfare and drug trafficking in the country. Therefore, there is possibility of security risk of the assets as there have been guerrilla attacks on oil pipelines and production fields in recent times; however, the government has worked hard to reduce the effects of the guerrilla attacks with increased security.
- **Potential Exploration Failure.** PRE heavily relies on its estimation of reserves for its production targets. However, the reserves are calculated based on geophysical analysis, which are not always accurate in identifying hydrocarbons. Therefore, future exploration for hydrocarbons could fail with the lack of discoveries from probable reserves. Historically, PRE has a success rate of 80% of realizing the reserves it has booked.

Management

Many of the top managers at PRE come from Petróleos de Venezuela, S.A. (PDVSA), the national Venezuelan energy company which has the largest oil reserves in the world. Ronald Pantin has been CEO since 2007, and brings more than 24 years of experience in the oil industry from PDVSA. The President and Executive Director of PRE, Jose Arata, co-founded PRE with Pantin. Jose has about 30 years' experience in the Latin American E&P industry, while being specifically involved in Colombia since 1996. It is a real competitive advantage to have management that has extensive experience within the region, and success within the E&P industry.

Ownership

% of Shares Held by All Insider & 5% Owners:	0.14%
% of Shares Held by Institutional & Mutual Fund Owners:	54.31%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	%Out
Capital World Investors	32,268,928	10.93%
Capital Research Global Investor	13,626,400	4.62%
Carmignac Gestion	11,437,700	3.88%
Janus Capital Management LLC	6,528,837	2.21%
PF One Ltd	6,447,084	2.18%

Source: Bloomberg