MARQUETTE UNIVERSITY
College of Business Administration
Applied Investment Management

AIM
APPLIED INVESTMENT MANAGEMENT

Applied Investment Management (AIM) Program

AIM Class of 2014 Equity Fund Reports
Spring 2013

Date**: Friday, April 5th* | ***Time: 3-4 p.m. | ***Location: AIM Research Room (488)***

Join us in person, or considering joining us live at:
Connect to the LIVE meeting via Blackboard web-based conferencing tool

Student Presenter	Company Name	Ticker	Price	Page No.
John Osborne	Delta Natural Gas Company Inc.	DGAS	$21.74	2
Ellen Toshach	Cencosud S.A.	CNCO	$18.69	5
Joseph Hagen	GasLog Ltd.	GLOG	$12.33	8

The AIM Class of 2014 has taken over responsibilities for the AIM portfolios and will begin to present their first equity recommendations on Friday, April 5th. 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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Delta Natural Gas Company Inc. (DGAS)
April 5, 2013

John Osborne | Domestic Utilities

Delta Natural Gas Company Inc. (NASDAQ: DGAS) distributes, store, transports, gathers, and produces natural gas in central and southeastern Kentucky. DGAS, through its subsidiaries, buys and sells natural gas, as well as operates underground storage and production properties. It operates through two segments, Regulated and Non-Regulated. The company owns approximately 2,500 miles of natural gas gathering, transmission, distribution, and storage service lines; and holds leases for the storage of natural gas under 8,000 acres located in Bell County, Kentucky. It serves approximately 36,000 customers. The company was founded in 1949 and is headquartered in Winchester, Kentucky.

Price ($) (3/25/13)	21.74	Beta:	0.61	FY: June	2012A	2013E	2014E
Price Taget ($):	24.73	WACC	7.2%	Revenue (Mil)	74	77	81
52WK Range ($):	17.08-24.82	M-Term Rev. Gr Rate Est:	5.0%	% Growth	-10.79%	4.00%	5.00%
Market Cap:	148.9M	M-Term EPS Gr Rate Est:	7.5%	Gross Margin	47.25%	49.20%	50.00%
Shares Oustanding	6.8M	Debt/Equity	87.6%	Operating Margin	17.91%	20.20%	21.00%
Short Interest (%):	2.0%	ROC:	6.8%	EPS	$0.85	$1.05	$1.16
Avg. Daily Vol:	10.98K	ROE:	10.9%	FCF/Share	0.93	0.81	0.92
Dividend ($):	$ 0.72			P/E	25.56	23.64	21.32
Yield (%):	3.30%			EV/EBITDA	10.01	11.47	10.59

Recommendation

With more than 210 natural gas pipeline systems and 305,000 miles of interstate and intrastate transmission pipelines nationwide, the natural gas industry still has room to grow. DGAS has consistently been able to grow their gross margin, recently increasing from 42.4% to 47.2% from FY2011 to FY2012 – despite recording negative revenue growth in the most recent reported fiscal year. Delta should continue to increase their operating margin, which has grown 6% over the last 3 years. The firm's revenue, according to management, are projected to grow at a 4-5% rate annually in the future. They recently reported an increase in gross margin due to 9% larger volumes sold to their regulated customers as a result of colder than expected weather. Natural gas costs in Kentucky are projected to be at the lowest level in the past 10 years – with customers expected to pay about 12 percent less in the coming months for natural gas. As production in the Kentucky coal industry declined, the production of natural gas has boomed in the state. Local economies on the central and eastern side of the state have benefited from an increase in natural gas production. The firm recently announced an increase in the quarterly dividend from $0.175/share to $0.18/share. DGAS pays an annual dividend of $0.72 with a yield of 3.30%. Based off of solid historical and forecasted operating results, it is recommended that DGAS be added to the AIM Equity Fund with a target price of $24.73, which offers a potential upside of 19.37%.

Investment Thesis

- **European Industry Flocking to U.S.** The plunging price of natural gas in the United States has prompted European companies to move across the Atlantic in order to stay competitive. Natural gas prices have fallen to a quarter of those in Europe, largely because of American innovations in unlocking shale gas. With Europe lagging in energy production, manufacturers expect a chain reaction that could shift more and more investment to U.S. shores with mid-South states like Kentucky benefiting from increased industrialization.
- **Decrease in Coal Production.** Due to mild weather in 2012 and stricter regulation from the EPA, 27 Kentucky counties will be impacted by a decrease in expected coal severance funds needed for local projects. This has opened the door for more natural gas usage throughout the state. On a national scale, more than 100 of the 500 coal-burning power plants in the United States are expected to be shut down in the next few years with many converting to natural gas.
- **Flourishing Natural Gas Production.** As production in the Kentucky coal industry has declined, the production of natural gas has expanded in the state. Local economies on the central and eastern side of the state have benefited from an increase in natural gas production. Kentucky

currently has 19,300 active gas wells and ranked 18th in the country for natural gas production in 2012.

Valuation

In order to reach an intrinsic value for DGAS, a ten year discounted cash flow model was conducted. The firm's current WACC of 5.2% was given a 200 bps premium due to the overall higher industry average. As a result, a discount rate of 7.2% was used with a perpetuity growth rate of 3% in the DCF model which generated an intrinsic value of $25.95 per share. An EV/EBITDA multiple approach was also used with a peer multiple of 9.52x; resulting in an intrinsic value of $21.98. A P/E multiple also was used with a peer multiple of 22.24x; producing an intrinsic value of $25.52. Weighing the three values 50/25/25 respectively, a price target of $24.73 was established, representing a 19.37% upside. DGAS pay a quarterly stock dividend of $.18 per share to their common shareholders.

Risks

- **Weather Conditions Affect Revenue.** 71% of their annual gas sales are temperature sensitive. As a result, mild winter temperatures can cause a decrease in the amount of gas they sell in any year, which would reduce their revenues and profits. Huricanes, extreme weather or well-head disasters could damage production or transportation facilities, which would result in decreased supply of natural gas, increased supply costs, and higher prices for their customers. This could also result in new government regulation that limit production.
- **Pipeline Transportation Capacity.** DGAS purchases almost all of their gas supply from interstate sources. Interstate pipeline companies transport the gas to their system and a decrease in interstate pipeline capacity available or an increase in competition for interstate transportation service could reduce their normal interstate supply of gas. This would result in a loss of customers and a decrease in profits.
- **Reliance on Capital to Maintain Liquidity.** Since their internally generated cash coupled with short-term borrowings is not sufficient for their operating cash requirements and normal capital expenditures, they may need to obtain additional financing. Market disruptions may increase their cost of borrowing or adversely affect their access to capital markets. These disruptions include economic downturns, bankruptcy of an unrelated energy company, market price for natural gas, terrorist attakcs and the overall health of the energy and utility industries. There is no guarantee that DGAS could obtain needed capital in the future.

Management

Glenn R Jennings has been the Chairman, President and CEO of Delta Natural Gas Company since November of 2005. He also serves the energy industry as a board member and committee member of the American Gas Association and the Southern Gas Association. He is Vice-Chairman of the American Gas Association Small Member Council. John B Brown has been the CFO and Treasurer since May of 2007. He also serves as corporate secretary and oversees the areas of accounting, rates, information technology, human resources and investor relations. Matthew D Wesolosky is the Vice President and Controller of DGAS and has occupied these positions since November of 2010. Mr. Wesolosky previously held the position of Manager of Accounting and Information Technology. Brian Ramsey serves as VP of Transmission & Gas Supply and Johnny L Caudill serves as VP of Distribution.

Ownership	
% of Shares Held by All Insiders and 5% Owners:	11%
% of Shares Held by Institutional & Mutual Fund Owners	27%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Gabelli Funds, LLC	261,600	3.82%
Cutter & Co. Brokerage, Inc.	182,014	2.66%
Vanguard Group, Inc.	165,442	2.42%
BlackRock Fund Advisors LP	158,196	2.31%
Dimensional Fund Advisors LP	132,055	1.93%

Source: Bloomberg

Cencosud S.A. (CNCO)
April 5, 2013

Ellen Toshach International Consumer Staples

Cencosud (NYSE: CNCO) along with its subsidiaries, operates as a consumer retailer in Argentina, Brazil, Chile, Colombia and Peru. Functioning through supermarkets and hypermarkets (consisting of 73% of revenue), home improvement stores (13% of revenue), department stores (9% of revenue), shopping centers (2% of revenue), insurance brokerage services (4% of revenue), and financial services (1% of revenue). Cencosud also offers construction, remodeling, equipping and decoration equipment for home and garden. Spread across Latin America, CNCO receives 41% of revenue in Chile, 29% in Argentina, 21% in Brazil, 8% in Peru, and less than 1% in Colombia. The company was founded in 1960 and is headquartered in Santiago, Chile.

Price ($): (3/2/13)	$ 18.69		Beta:	1.119		FY: Dec	2012 A	2013 E	2014 E
Price Target ($):	$ 22.96		WACC:	7.89%		Revenue ($mil)	$ 18,822	$ 21,269	$ 23,821
52 WK H-L ($):	15.00-20.86		M-Term Rev Gr. Rate Est:	8.6%		% Growth	13%	13%	12%
Market Cap (mil):	$ 47,482.49		M-Term EPS Fr. Rate Est:	11.7%		Gross Margin	28%	28%	28%
Float (mil):	903.6		Debt/Equity:	103.7%		Operating Margin	7%	7%	7%
Short Interest (%):	N/A		ROA:	3.6%		EPS ADR (Cal)	$ 0.66	$ 0.83	$ 0.97
Ave Daily Vol (K):	129025		ROE:	8.6%		FCF/Share	$ 0.84	$ 0.84	$ 1.03
Dividends ($):	$ 0.14					P/E (Cal)	25.6x	27.7x	23.6x
Yield (%):	0.80%					EV/EBITDA	16.45x	12.90x	11.81x

Recommendation

As the third largest retail company in Latin America (and the largest retailer in Chile), Cencosud operates department stores, home improvement stores, supermarkets, insurance brokers, shopping centers, and credit card issuers. The firm operates in some of the strongest economic growth markets in Latin America. CNCO recently acquired Colombia's second largest supermarket chain in December 2012, increasing their retail space to 11.8 million square feet in 982 stores. With further room for expansion, an increase in demand for private label offerings, and the recent opening of the Costanera Center, CNCO is poised for steady double-digit growth within their existing and developing markets. Also, highlights in the 2012 4Q financial statements revealed an 18% growth in YoY sales along with an impressive growth of 29% in their gross profit margin. The company's goals for 2013 include reducing inventory shrinkage and a continued improvement in the gross margin. Because of favorable economic markets, strong retail growth potential and a favorable valuation, it is recommended that CNCO be added to the AIM International Fund with a price target of $22.96, which offers a potential upside of 23%. The firm pays an annual dividend of $0.14.

Investment Thesis

- **Strong nominal growth within regional economy.** Most of the countries that Cencosud operates within offer significant room for impressive long-term growth. In Brazil, 2013 GDP is expected to grow at 4.1% with an inflation rate of 5.7%, creating a nominal growth rate of nearly 10%; Colombia is projected to grow at a 7.4% nominal growth; Argentina at more than 15% growth; Chile at 7% growth; and Peru at more than 7.2% nominal growth. On average, these countries have an impressive near-term growth rate of 9.5%. This alone indicates high growth potential for the company before taking into consideration their future organic growth, new store openings and potential acquisitions.

- **Increase in demand for private labels.** Within Latin America, there is a growing demand for privately labeled products. On average, one in five items sold in Latin America are private labeled products and there are many influencing pressures for private label growth. Since Cencosud has solid private label brands within Peru and Brazil - which make up about 29% of the

company's revenues - this increase in demand for private labels expected to continue to improve their profitability due to lower pricing.

- **Emerging stores and Costanera Center.** In 2012, Cencosud opened a six-floor shopping mall called Costanera Center in Santiago, Chile. This includes two supermarkets, a home improvement store, and three department stores along with 300 minor specialty stores. The mall is the largest and tallest building in South America –and is likely to attract strong customer traffic in 2013 and beyond – similar to consumer pull of the Mall of America in Minneapolis.

Valuation

In order to reach an intrinsic value for CNCO, a five year discounted cash flow model was conducted. Using a terminal growth rate of 3% and a WACC of 7.9% resulted in a valuation of $24.70. Sensitivity analysis on both the terminal growth rate and WACC provided for a range between $12 and $50. Additionally, a relative valuation of the company was conducted. Using an industry average P/E multiple of 25.6x and a 2013 expected EPS per ADR of $0.83, a value of $21.22 was obtained. By weighing the DCF model 50% and the P/E multiple 50%, a price target of $22.96 was established. CNCO pays a dividend of $0.14/share - a yield of about 1%.

Risks

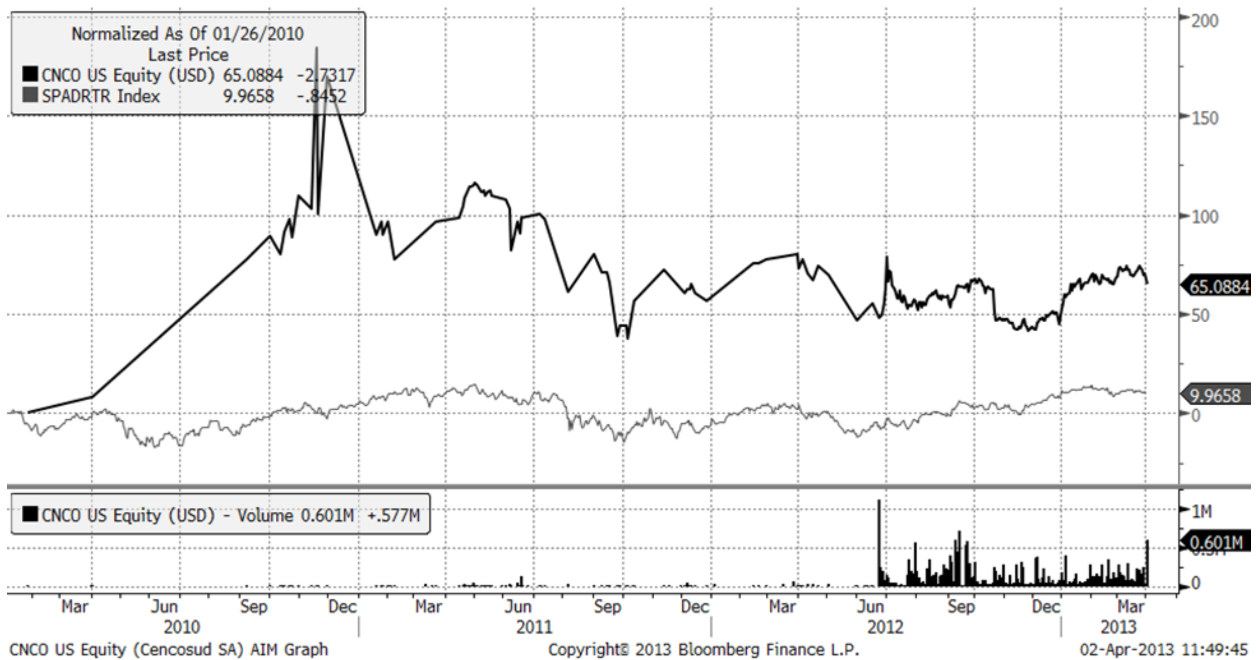
- **International and political risk.** With a presence across Latin America, there are inherent risks which the company is prone to. These risks include expropriation and nationalization of assets, economic and political instabilities, terrorism, war, inflations along with natural disasters. Many of these risks have been pertinent which force the company to restructure and reevaluate their business model in order to stay competitive and relevant within the market.

- **Strong competition.** Over the past few years, consolidation in the Chilean supermarket sector has substantially modified the competitive environment. Many supermarket competitors have taken a more aggressive position within the market. Wal-Mart, acquiring D&S and consolidation efforts from SMU has generated stronger competition for Cencosud. This intense competition for CNCO forces the company to invest heavily in advertising and promotions. Being in so many different retail departments, it is important for the company to stay competitive on price and quality.

- **Fluctuation in exchange rates.** With a footprint across Latin America, Cencosud has operations within many different currency markets. Based on exchange rates between countries, the company faces the risk of unexpected losses due to exchange along with large increases in the reporting of accounts receivables and payables.

Management

Horst Paulmann Kemna is the Chairman of the Board and the Founder of Cencosud. He has been a board member since 1978 and has spent 35 years with the company. Horst Paulmann and his family hold 64.99% of shares. The CEO is Daniel Rodriguez and he has been with Cencosud four years. Juan Manuel Parada is the CFO and has been with the company five years. Pablo Castillo is the corporate supermarkets manager. Dario Amenabar is the Reginal Finance Manager and has been with Cencosud 2 years. The Investor Relations Manager has been with the company 2 years and is Marisol Fernandez.



Ownership

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

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	Out%
Claymore Advisors LLC	629,934	0.07%
Credit Suissee Asset Management	435,000	0.05%
Norges Bank	300,000	0.03%
Commonwealth Bank of Austrailia	294,025	0.03%
BNP Paribas Investment Partners	157,200	0.02%

Source: Bloomberg

GasLog Ltd. (GLOG)
April 5, 2013

Joseph Hagen International Industrials

GasLog Ltd. owns, operates, and manages liquefied natural gas (LNG) carriers. GLOG provides maritime services for the transportation of LNG on a worldwide basis. GLOG also offers LNG vessel management services, such as plan approval for new ship orders; supervision of ship construction; and planning and supervision of dry dockings, as well as technical operations: crewing; training; maintenance; regulatory and classification compliance; and health, safety, security, and environmental management and reporting. GLOG provides technical ship management services for 16 LNG carriers owned by third parties in addition to management of the 4 LNG carriers operating in its owned fleet. All of GLOG's vessels are or will be equipped with the latest Tri-Fuel Diesel Electric (TFDE) propulsion technology. GLOG's fleet consists of its wholly owned vessels and its eight new building ships to be constructed by Samsung Heavy Industries Co., Ltd. The company was incorporated in 2003 and is based in Monaco.

Price ($) (2/27/13)	12.33	Beta:	1.21
Price Taget ($):	16.22	WACC	8.50%
52WK Range ($):	8.76-13.45	M-Term Rev. Gr Rate Est:	6.40%
Market Cap (Mil):	775.1	M-Term EPS Gr Rate Est:	10.23%
Float (mil)	18.95	Debt/Equity	42.15
Short Interest (%):	2.27%	ROA:	1.68%
Avg. Daily Vol (Mil):	0.16139	ROE:	0.95%
Dividend ($):	$ 0.44		
Yield (%):	3.40%		

FY: December	2012 A	2013E	2014E
Revenue (Mil)	68.54	143.93	230.29
% Growth	3.11%	110.00%	60.00%
Gross Margin	59.6%	60.0%	65.0%
Oper Margin	30%	42%	42%
EPS (Cal)	0.07	0.57	1.10
FCF/Share	(1.58)	(11.55)	(2.66)
P/E (Cal)	177.57	20.00	20.00
EV/EBITDA	23.19	8.77	5.05

Recommendation

GLOG is an attractive transportation services company that offers high-end cash flow visibility that is tied to an unprecedented pace of projected LNG demand growth. Natural gas offers major countries a solution to their sovereign energy concerns regarding diversification, security and carbon emissions. Also, demand for LNG has been bolstered by the rising premium on energy diversification in the wake of the Arab Spring. The projected 2013-16 LNG demand CAGR is 6% (compared to only a 2% CAGR for LNG shipping capacity) with an expanding share of LNG-sourced imports relative to pipeline delivery. Through major clients clients, GLOG has access to substantial project pipelines which will fuel increased demand for LNG carrying capacity. GLOG meets demanding asset standards with its own all-LNG fleet which is scheduled to expand to 12 by 2015 on the back of a funded orderbook. 100% charter cover through 2014 shelters against potential short-term overcapacity in 2013 due to phasing of vessel deliveries. GLOG is backlogged on orders for its vessels through 2014, providing for a stable revenue stream. GLOG's fleet is equipped with Tri-Fuel Diesel Electric Propulsion, which yields a $38k/day bunker cost advantage vs. older steam turbine technology. Further, GLOG's peformance is backed by developed relationships with blue-chip counterparties. They also have an expanding fleet of modern vessels and an experienced management team. It is recommended that GLOG be added to the AIM Fund with a price target of $16.22, yielding an upside of 31.60%. GLOG also pays a 3.40% dividend.

Investment Thesis

- **Improved Fleet Efficiency.** Excess capacity and depressed charter rates increased the number of container ships sent to be scrapped by 473% since June 2005. This has created a more efficient fleet as older ships are replaced by newer models. Tri-Fuel Diesel Electric Propulsion ships consume about 35% less fuel per container and are able to carry 16% more containers, according to Maersk. These vessels allow greater flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits.
- **Increased U.S. Gas Exports.** LNG tanker rates should benefit from the increase in U.S. natural gas production. Domestic shale gas supplies have pushed U.S. natural gas prices 64% below

those of Europe and Asia, which has increased export opportunities for U.S. natural gas to those regions. Capacity constraints could occur if demand accelerates. The IEA projects natural gas as a percentage of energy consumption to increase from 21% to 25% in 20 years.

- **Value Added Services.** The LNG shipping business is characterized by significant barriers to entry, as it requires a large amount of capital, qualified ship personnel, a high degree of technical management capabilities and deep and long-standing relationships with customers and suppliers. GLOG is well positioned to access additional growth opportunities, based on experience, high standards for quality, our strong track record in LNG safety and technical management and long-standing relationships with leading LNG charterers, shipbuilders, shipbrokers and lenders.

Valuation

To find the intrinsic value of GLOG, a DCF and P/E multiple appraoch was used. With the DCF, a WACC of 8.5% was used with a terminal growth rate of 3%, which yielded an intrinsic value of $16.06. A P/E multiple of 20x was used, with a 2013 and 2014 EPS of $0.57 and $1.10, respectively. After weighing the 2013 and 2014 EPS at 50-50, a weighted P/E multiple of $16.70 was found. The DCF and P/E multiple were then weighed at 75% and 25%, respectively, to yield an overall intrinsic value of $16.22, with an upside of 31.6%.

Risks

- **Uncertain Growth in LNG production.** LNG production capacity has expanded in recent years, but material delays in the construction of new liquefaction facilities could constrain the amount of LNG available for shipping, reducing ship utilization. The price of natural gas and other sources of energy and the continued acceleration in natural gas production from unconventional sources could fluctuate the rate of growth of natural gas. Any downturn in LNG production could hurt GLOG's performance.
- **Ability to find shipping contracts.** GLOG's financial performance is heavily dependent on its ability to enter into time charter contracts with natural gas suppliers. An inability to contract with suppliers will hurt GLOG's profitability.
- **Shipping Delays/Vessel Downtime.** Weather, mechanical breakdowns, or other work breakdowns that result in operations stoppages may have a material adverse impact on GLOG's performance.

Management

The Livanos family has been in the shipping industry for more than 100 years. The late George P. Livanos, the father of the current chairman, established a predecessor to Ceres Shipping that had interests in dry-bulk, tanker, and container vessels. CEO and Chairman Peter Livanos founded GasLog LNG Services (a predecessor) in 2001 and has served as chairman since the company was incorporated in July 2003. Vice Chairman and Director Philip Radziwill joined GasLog in 2011 and has several years of shipping experience with SCP Clover Maritime. CFO Henrik Bjerregaard joined GasLog in 2007 and has 12 years of shipping experience, including as CFO for Maersk Tankers (2004-2007) and CFO of Maersk Gas Carriers (2001-2004).

Ownership

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

Top 5 Shareholders

Holder	Shares	% Out
LIVANOS PETER G	32,205,532	51.23%
RADZIWILL JOHN S A	7,197,596	11.45%
A S ONASSIS FOUNDATION	4,512,242	7.18%
LORD ABBETT & CO LLC	2,517,984	4.01%
HIGHFIELDS CAPITAL MANAGEMENT	2,098,764	3.34%

Source: Bloomberg