

## Applied Investment Management (AIM) Program

### AIM Class of 2013 Equity Fund Reports Fall 2012

**Date:** Friday, August 31st    **Location:** AIM Research Room

Student Presenter	Company Name	Ticker	Price	Page No.
Sam Sladky	Noble Corporation	NE	\$38.27	2
Michael Schwoerer	Itau Unibanco Holding S.A.	ITUB	\$16.86	5
Nick Hartnell	Rosetta Resources	ROSE	\$41.88	8
Kobe Park	Allied World Assurance AG	AWH	\$77.33	11
Greg Trunk	AMN Healthcare Services	AHS	\$7.72	14
Varun Varma	Total Petroleum S.A.	TOT	\$49.11	17

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.

You are also welcome to join us in person, or via video conferencing through "Elluminate"; a web-based video conferencing tool. To join the session, please click the following link within 30 minutes of the specified time: [Join the session](#)

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## Noble Corporation (NE)

August 31, 2012

Sam Sladky

International Energy

*Noble Corporation (NE) is a leading offshore drilling contractor for the oil and gas industry. Through its various subsidiaries, Noble performs contract drilling services worldwide, including in the Gulf of Mexico, Mexico, Brazil, the North Sea, West Africa, the Middle East, India, and the Asian Pacific. It is the 3<sup>rd</sup> largest offshore drilling company by Enterprise Value, with a fleet of 68 operational rigs, and another 11 rigs set to be delivered through 2014. Noble's fleet has the ability to drill to depths of up to 40,000 feet beneath the ocean floor and in the harshest of conditions. In 2011, Noble reported revenue of \$2.7 billion, with the largest shares coming from North and South America, at 36% and 21%, respectively. Noble is headquartered in Geneva, Switzerland.*

Price (\$) (8/16/12):	\$ 38.27	Beta:	1.22	FY: December	2011A	2012E	2013E
Price Target (\$):	\$ 46.33	WACC	8.7%	Revenue (\$Mil)	2,695.83	3,651.76	4,199.52
52WK H-L (\$):	41.41-26.93	M-term Rev. Growth Rate Est	6.8%	% Growth	-4.0%	35.5%	15.0%
Market Cap (mil):	9,684.80	M-term EPS Gr Rate Est.	5.9%	Gross Margin	20.80%	29.49%	40.00%
Short Interest:	3.1%	Debt/Equity:	55.0%	Operating Margin	17.41%	26.56%	35.00%
Float (mil)	7.8	ROA:	4.1%	EPS (\$Cal)	\$1.47	\$2.74	\$3.33
Ag. Daily Volume (mil)	2.382	ROE:	7.3%	FCF/Share (\$)	(5.40)	(1.39)	(0.08)
Dividend (2011):	\$ 0.60			P/E (Cal)	21.43	14.00	8.50
Div. Yield (2011):	2.0%			EV/EBITDA	12.41	8.36	7.41

### Recommendation

Reflecting increased consumer demand for petroleum products, world crude oil demand has been growing at an annualized compound rate in excess of 2% the last five years. Further, the offshore drilling market is in the midst of another cyclical upturn as commodity prices and customer confidence stabilize. The global deepwater fleet is 88 percent contracted for 2013, despite rig count growing by 21. This illustrates the recent growth in demand for deepwater drillers. Through its strategic capital investment strategy which was implemented early in 2011, Noble is well positioned to take advantage of the growth. Their \$4 billion investment strategy to expand and update its fleet will allow the company to charge higher day rates. Noble is also positioned well to gain from increasing day rates in the second half of 2012, with nearly 80% of possible rig days committed for the remainder of 2012. Noble's average day rate increased from \$167,124 at the end of the first quarter, 2012 to over \$181,500 at the end of the second quarter. The increased focus on safety will also drive companies to contract with Noble given that they have one of the most up to date fleets in the industry. Noble has already increased its rig utilization in the first two quarters of 2012, from 74% to 76% respectively. Given the potential upside from Noble's investment strategy and their positioning within the industry, it is recommended that the company be held in the international portfolio with a target price of \$46.54, yielding an upside of 21.04%. The company pays a 2% dividend.

### Investment Thesis

- **Shift to Deepwater Drilling:** The oil industry is experiencing an overall shift toward deepwater drilling of wells. The easy oil from shallow water wells is becoming increasingly difficult to find, which is causing producers to look into deeper waters. Noble has positioned itself to take advantage of this shift through its \$4B investment in updated rig technology and 11 new, state-of-the-art rigs set for delivery through 2014.
- **Size and Update of Rigs:** Noble currently has the third largest fleet in the world at 79 rigs, which makes up 12% of the oil drilling rigs. In addition to sheer size, Noble continuously updates its rigs with the latest technology to improve its operational efficiency. The size and

ability of Noble's fleet ensures that it will maintain its competitive edge over other offshore drilling contractors by allowing the company to charge higher day rates on average per rig.

- **Contract Backlog:** As of Q1 2012, Noble had \$14.5B in its backlog, which is more than both EnSCO and Transocean (its two main competitors) on a per rig basis. The backlog consists of revenue under contract or letters of intent. The backlog allows Noble to maintain a more stable revenue stream, with more predictable revenues due to planned projects. The backlog also allows Noble to reduce idle rig time while increasing profitability.
- **Rising Day Rates/Focus on Safety:** Following the BP Oil Spill in the Gulf of Mexico, increased regulation has pushed safety to become a primary concern with rig contractors. A premium has been placed on new, updated rigs which Noble is poised to take advantage of. The \$4B investment strategy Noble has employed since 2011 will allow the company to charge higher rates for its new rigs due to the safety concerns of preventing another blowout.

### Valuation

To find the intrinsic value of Noble Corporation, a seven-year DCF was conducted. After projecting out revenues, a conservative WACC of 8.7% was used with a terminal growth rate of 3% to yield an intrinsic value of \$48.44. A P/E multiple was also used with a price target multiple of 14x. After weighing the 2012 and 2013 EPS at 50-50, a target price of \$42.46 was calculated. Finally, a dividend discount model was also used. With a target dividend yield of 1.3% and a 2012 dividend of \$0.60, a target price of \$46.15 was achieved. After weighing the DCF, P/E multiple, and dividend discount price targets at 40%, 20%, and 40% respectively, an overall price target of \$46.54 was achieved, with an upside of 21.06%.

### Risks

- **Industry Risk.** Noble's business depends on the level of activity in the oil and gas industry, which is significantly affected by volatile oil and gas prices. Demand for drilling services depends on a variety of economic and political factors and the level of activity in offshore oil and gas exploration and development and production markets worldwide. Commodity prices and market expectations of potential changes in these prices, may significantly affect this level of activity which ultimately will impact the profitability of the company.
- **Government Regulations.** Governmental laws and regulations, including environmental laws and regulations, may add costs or affect Noble's drilling activity. Noble's business is affected by public policy and regulations relating to the energy industry and the environment in the geographic areas where the company operates. Increased governmental regulations, specifically those regarding the Gulf of Mexico and Alaska, may materially impact the profitability of the company.
- **High Capital Expenditures.** Noble has undertaken considerable debt to finance its long-term investment strategy. The ability of the company to repay its debt will have a material effect on the ability of the company to continue its operations worldwide.

### Management

David Williams joined Noble in 2006, rising to his current position as CEO/President in 2008. He previously served for 5 years as Executive Vice President for Diamond Offshore Drilling, Inc., a competitor. Julie Robertson, Executive Vice President, has been with the company continuously since 1979. James MacLennan, Senior Vice President/CFO, worked with Noble from 1993-1997 and recently rejoined Noble this past January. Overall, the executive team for Noble averages 9.8 years of tenure, as compared to 6.2 years for the industry. The high retention rate has given Noble a dedicated, credible management team who has helped Noble emerge as a leader in the industry.



### Ownership

% of Shares Held by All Insider and 5% Owners:	.58%
% of Shares Held by Institutional & Mutual Fund Owners:	91.9%

Source: Bloomberg

### Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Wentworth Hauser and Violich	16,449,182	6.51
Fidelity Management and Research	14,061,804	5.57
Franklin Resources Incorporated	10,550,055	4.18
Vanguard Group Inc.	10,456,076	4.14
Wellington Management Co. LLP	10,065,339	3.98

Source: Bloomberg

## Itaú Unibanco Holding S.A. (NYSE: ITUB)

August 31, 2012

Michael Schwoerer

International Financial Services

*Itaú Unibanco Holding attracts deposits and offers retail, commercial, corporate, and private banking services to individuals and companies in Brazil and internationally. Itaú is the dominant player in credit cards, vehicle finance and other consumer credit products, as well as investment banking. With about 4,000 branches and nearly \$500 billion in assets, Itaú Unibanco is the largest non-government-controlled financial institution in Latin America. Headquartered in Brazil, it is the result of Itaú and Unibanco's merger. Business loans constitute around 55% of its portfolio, while loans to individuals (including more than 30 million credit card customers) make up 40%. The remainder resides in Argentina, Chile, Uruguay, and Paraguay – countries in which the company intends to grow.*

Price(\$): (8/25/12)	16.86	Beta:	1.78	FY:	2011A	2012E	2013E
Price Target (\$):	26.07	WACC	11.10%	Revenue (mil)	77,467.00	80,863.14	87,272.29
52WK H-L (\$):	22.00-12.84	M-Term Rev. Gr Rate Est:	5.00%	Growth	7.55%	8.87%	7.93%
Market Cap (mil)	77,980.20	M-Term EPS Gr Rate Est:	7.00%	Operating Margin	22.13%	26.54%	27.99%
Float (mil):	2,470	Debt/Equity	439	Pretax Margin	18.44%	18.13%	19.20%
Short Interest (mil):	18.00	ROA:	1.79	EPS (Cal)	2.89	3.14	3.6
Avg. Daily Vol:	13,798,200	ROE:	19.74	P/E (Cal)	11.3	10.72	9.35
Dividend (\$):	0.33	PEG Ratio (5-yr expected):	1.33	BVPS	8.26	8.3	8.03
Yield (%):	1.10	Tier-1 Capital Ratio	16.00	P/B	1.95	2.03	2.1

### Recommendation:

Itaú Unibanco is the result of the merger of Banco Itaú and Unibanco on November 4, 2008, making it the largest financial conglomerate in the Southern Hemisphere and the 10<sup>th</sup> largest bank in the world by market value. Coming out of the near-term Brazilian headwinds quite easily, Itaú Unibanco's capital and financial health are in good position for growth. The bank's capital is adequate, with a Tier 1 capital ratio of more than 12% and a tangible common equity of nearly 8% of tangible assets. This healthy equity base is a good indication of predicted future growth for the bank. With those positive notes, and behind the expertise and effectiveness of Itaú's management, the blending of strengths of the two merged banks, and along with significant market share in all of the bank's product offerings, Itaú has positioned itself nicely to begin large, historical growth. Along with those drivers, and with the country of Brazil featuring the macroeconomic boost of the two biggest sporting events in the upcoming years, Itaú Unibanco is in great position to capitalize on these tailwinds and generate significant growth and return for shareholders, highlighted by a forecasted 25% ROE by 2013-2014, and which triggers a recommendation that ITUB be added to the AIM International Equity Portfolio with a price target of \$26. ITUB also pays a 1.10% dividend.

### Investment Thesis

- **Merger of Itaú and Unibanco.** With Itaú's management running most of the business, the company is in reliable and experienced hands coming out of Brazil's near-term headwinds relatively unscathed. Itaú Unibanco can benefit from both of its separate enterprises weaknesses. Itaú has a heavy focus on cost discipline, which resulted in an average efficiency ratio (noninterest expenses/revenues) of 45%, a full 10% less than Unibanco's. But Unibanco has had slightly better underwriting standards, despite Itaú's efforts to tighten its own. Hence, with Itaú's management and cost effectiveness and Unibanco's underwriting standards, the combined bank is ready to generate ROE's near 25%.
- **Huge Market Share.** The bank is among the market share leaders in virtually all of its product offerings, including an impressive 25% private banking market share in the Latin American market. For example in products, in Brazil it is the dominant player in investment banking, as well as consumer credit products like credit cards, vehicle finance and others. Not only are these

very profitable and growing segments, but they also provide a vast economic moat, making it very difficult for competitors to enter into the market and erode Itau Unibanco's market share in these product offerings.

- **Upcoming Mega-Macro Events in Brazil.** In 2014, the soccer World Cup will be held in 12 Brazilian cities and then two years later, in 2016, the Olympic Summer Games are to be held in Rio de Janeiro. Government officials expect tourism to rise in the course of these events, as well as investing billions of dollars into Brazil's infrastructure. New roads and railway lines will be built and plans to expand Rio's international airport are under way. Money will go into other social and economic projects as well. While these events will most likely not immediately impact ITUB, the World Cup in South Africa in 2010 gave the country a major economic boost, and the same is expected to happen in Brazil. This will fuel GDP growth and the growth of Itau Unibanco.

### Valuation

To find the intrinsic value of ITUB, a P/B multiple, P/E multiple, and 5-year DCF models were used. A 2.10x multiple was applied to a 2012 BVPS estimate of 10.50 to reach an intrinsic value of \$22.05. For the P/E model, a 12x multiple was used with a 2012 EPS estimate of \$3.14, which generated an intrinsic value of \$37.68. For the DCF model a conservative WACC of 12% was used, which includes a foreign country premium, and terminal growth rate of 2%. This model generated an intrinsic value of \$33.20. I weighted the P/B model 70%, and the P/E and DCF models 15% each and came up with a final intrinsic value of \$26, which represents a potential upside of 54%. Itau Unibanco also pays a dividend yield of 1.10%.

### Risks

- **Currency Oscillations.** In addition to directly affecting ADR prices, these foreign currency exposures and changes influence the bank's underlying business. Itau issues dollar-denominated debt and derivatives can be profitable during times when the Brazilian real is appreciating, but companies that have not adequately hedged their exposure are also at risk if the real depreciates. Weakening of the real could impair these companies' cash flows as their interest payments rise, which could ultimately result in added loan losses for Itau Unibanco.
- **Inflation and Fluctuation in Interest Rates.** If inflation rises and exports fall, industrial activity in Brazil likely will contract, making it hard for Itau Unibanco to grow at its former rate. Also, prolonged periods of high inflation provoke distortions in the allocation of resources, resulting in actual loan losses or margin contractions. The vast majority of Itau's income, expenses, assets and liabilities are directly tied to interest rates. Therefore, Itau's results of operations and financial condition are significantly affected by inflation, and interest rate fluctuations. From 2004 to 2011, the average annual inflation rate was 5.4%. Expected inflation for 2012, as surveyed by the Central Bank, is 5.28%.

### Management

The bank is run mostly by Itau's top management, despite the fact that Unibanco's former CEO is the new company's chairman. Historically, Itau has done a better job of creating shareholder value through more efficient operations, which has resulted in higher returns on equity at Itau than at Unibanco. By maintaining Itau's top management, the merged company will be able to incorporate Unibanco's better credit standards without losing sight of profitability. Itau's management is like many large corporations in Latin America, as in they are controlled by a few families or individuals. Itau Unibanco is controlled by the Egydio de Souza Aranha and the Moreira Salles families. The CEO and the chairman are members of these families, and despite such tight control, Itau has rewarded its shareholders well through handsome profits so far. Management's net worth is very closely tied to the bank's fate, which reinforces the belief that Itau's top management will remain a good steward of shareowner capital.



Source: Bloomberg

#### Top Institutional Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Vanguard Group, Inc. (The)	44,268,560	1.92
Thornburg Investment Management	31,613,051	1.39
Northern Cross LLC	30,811,749	7.16
Templeton Asset Management	30,811.749	1.35

Source: Yahoo Finance

## Rosetta Resources, Inc. (ROSE)

August 31, 2012

Nick Hartnell

Energy

*Rosetta Resources, Inc. (NASDAQ: ROSE) is an independent onshore oil and gas exploration and production company. Rosetta owns producing properties in the Eagle Ford shale in southern Texas as well as an exploratory position in the Southern Alberta Basin in northwest Montana. The Eagle Ford shale property provided 78% of total production in 2011 where ROSE holds a 65,000 net acre leasehold position. Rosetta became an independent company on July 7, 2005 when it was spun-out from Calpine Corporation and went public on February 13, 2006. Under a new leadership team beginning in 2007, ROSE sold most of its legacy assets and has become the 8<sup>th</sup> largest unconventional player in Eagle Ford. It is headquartered in Houston, TX and employs 165 full-time employees.*

Price (\$): (8/23/12)	41.88	Beta:	1.54	FY: Dec. 31	2011A	2012E	2013E
Price Target (\$):	57.46	WACC	13.24%	Revenue (mil)	446.20	617.91	850.00
52 WK H-L (\$):	30.42-54.58	M-Term Rev. Gr Rate Est:	10.00%	% Growth	44.67%	38.48%	37.56%
Market Cap (mil):	2212.70	M-Term EPS Gr Rate Est:	10.00%	Gross Margin	56.85%	58.93%	55.00%
Float (mil):	51.40	Total Debt/EBITDA	0.77	Operating Margin	39.98%	45.92%	38.00%
Short Interest (%):	10.86%	Total Debt/Equity	0.42	EPS (Cal)	1.91	1.66	3.54
Avg. Daily Vol (mil):	0.92	ROA:	15.09%	FCF/Share	-2.56	-2.53	-3.57
Dividend (\$):	0.00	ROE:	25.56%	EV/EBITDA	8.32x	6.17x	5.62x
Yield (%):	0.00%			EV/BOE/d	89.62x	73.71x	76.33x

### Recommendation

An early entrant and now a pure player in the liquids-rich Eagle Ford shale region, Rosetta's strategic focus has shifted dramatically from being 95% natural gas four years ago to 59% hydrocarbon liquids. ROSE has diversified its production base to include a greater mix of crude oil and NGLs, which continue to be priced at more favorable levels than natural gas (note: natural gas prices have decreased 62% and oil prices have risen 32% since 2009). Q2 2012 production averaged 33,400 BOE per day, up 25% from Q2 2011, and is expected to rise to 40,000 by year's end. ROSE is currently replacing reserves at a 22x rate, well outpacing competitors. The Company has had an exceptional track record of well drilling, with a 100% success rate in 1H 2012 when they drilled an additional 37 wells, bringing the total to 91. At its current pace of 60 well completions per year, there is an estimated 15 years left of Eagle Ford development, translating into double-digit growth in production for years to come. The sale of non-strategic assets (\$440MM) and increased operational efficiencies have led to a lowering of the firm's cost structure, as lease operating expenses decreased to \$3.06 per BOE from \$4.94 a year ago. Because of these reasons and a favorable valuation, it is recommended that ROSE be added to the AIM Equity Fund with a price target of \$57.46, which offers a potential upside of 37%. No dividend is paid by the firm.

### Investment Thesis

- **Location.** Eagle Ford is a lucrative region to be operating and is one of the most active shale plays in the U.S., where Rosetta has 900 location opportunities with 0.5B BOE potential. Proven reserves, which are 54% liquids, more than doubled to 161MM BOE at FYE 2011 and less than 10% of the identified inventory in this region is drilled and on production. The Company has put 93% of its capital towards this area, while the Southern Alberta Basin has been put on hold after an \$82.8MM impairment following initial exploration. This opportunity in Montana gives Rosetta optionality and an intriguing place to operate in the longer-term.
- **Financial Flexibility.** Rosetta's leverage profile is light at 0.77x Total Debt/LTM EBITDA, giving the Company ample room to finance future expansion with more LTD (\$535 MM available on their revolver and \$60MM of cash at 6/30/12). The Eagle Ford expansion is self-funding at current oil prices according to management. Maintenance CapEx (to keep production levels flat) is \$250MM annually, giving Rosetta ample room for further growth. Moody's



upgraded ROSE's debt rating to B1 from B2 with a positive outlook, highlighting the Company's low leverage, strong cash margins, and growing liquids production.

- **Lowering Cost Structure.** According to Bloomberg's industry research report, the breakeven oil price may rise to \$72/BOE from \$69 in 2011 and likewise, companies that consistently achieve lower full-cycle costs should outperform. The sale of non-strategic assets (\$440MM) and operational efficiencies have led to a lowering cost structure for ROSE, as lease operating expenses decreased to \$3.06/BOE from \$4.94 a year ago. ROSE also has a record of low finding and development costs (F&D), which have consistently averaged under \$10/BOE. Though depleting the proven undeveloped reserves (PUD) may pressure the low F&D costs, the rapid increase in liquids production should mitigate any margin pressure resulting from higher costs.

### Valuation

To find the intrinsic value of ROSE, a ten-year DCF using a half-year convention discount rate was conducted. Total revenue is expected to grow 38% yoy in 2012 and 27% yoy in 2013 due to increasing Eagle Ford development. Mid-term revenue growth is expected to hold constant at 20% annually, long-term growth is 10%, and terminal growth is 2%. A WACC of 13.24% was used and yielded an intrinsic value of \$55.90. Sensitivity analysis accounted for variations in WACC and the terminal growth rate, which resulted in a price target range of \$54-60. An EV/EBITDA multiple approach was also used. Blending a historic regression, historic average, and peer average, 8.07x was generated, yielding a \$59.88 target. Finally, an EV/BOE/d multiple approach was used, employing the same methodology as the EV/EBITDA valuation, and it produced a 76.33x multiple, garnering an intrinsic value of \$56.54. Triangulating the three valuation methods and weighing the DCF 40%, EV/EBITDA 30%, and EV/BOE/d 30% resulted in an overall price target of \$57.46, which offers a 37% upside.

### Risks

- **Hydraulic Fracturing Regulation.** The EPA has recently focused on the risk of water contamination from drilling and hydraulic fracturing activities. On April 17, 2012, the EPA issued regulations required under the Clean Air Act; including the first federal air standards for natural gas wells that are hydraulically fractured. New wells would be required to have special equipment separating gas and liquid hydrocarbons from the flowback. The rules are expected to be fully implemented in 2015. Also, Texas and Montana are among the states that require disclosing chemicals used in fracking. However, ROSE is in material compliance with applicable environmental regulations and does not use diesel fuel as one of the fluid components.
- **Volatile Oil, NGLs, and Natural Gas Prices.** As an E&P company, ROSE's stock price is sensitive to oil, NGLs, and natural gas prices. Large price fluctuations in these commodities may significantly impact the future production expectations in the industry. This risk is perpetuated due to a high 56% correlation between the daily stock price and the price of WTI oil over the past two years. To mitigate this risk, ROSE hedges with swaps and costless collars.
- **Potential Exploration Failures.** As ROSE increases its use of capital towards exploring to 10% from 5% currently, there is heightened risk/reward. These activities include the risks that no commercially productive quantities of oil, NGLs, and natural gas will be discovered or that drilling operations may be curtailed, delayed, or cancelled. ROSE employs geophysical analysis through 3-D seismic data and visualization techniques to best pinpoint hydrocarbons.

### Management

Randy Limbacher has been the CEO since November 2007 and was appointed Chairman of the Board in February 2010. Prior to joining Rosetta, he served as the President of exploration and production in the western hemisphere for ConocoPhillips and has over 30 years of experience in the energy industry. John Hagale is the CFO and Treasurer, assuming duties in November 2011. He has more than 30 years of financial experience in oil and gas and healthcare. Executive compensation is in line with achieving revenue and profitability targets.



### Ownership

% of Shares Held by All Insiders:	2.53%
% of Shares Held by Institutional Owners:	>90%

Source: Bloomberg

### Top 5 Shareholders

Holder	Shares	% Out
Capital World Investors	4,378,808	8.28
Wellington Management Company, LLP	4,304,995	8.14
Jennison Associates, LLC	3,784,244	7.16
Vanguard Group, Inc.	3,323,903	6.29
Goldman Sachs Group, Inc.	2,534,644	4.79

Source: Bloomberg

## Allied World Assurance AG (AWH)

August 31, 2012

Kobe Park

International Financial Services

*Allied World Assurance Company Holdings, AG (NYSE:AWH), is a Swiss-based specialty insurance and reinsurance company that underwrites a diversified portfolio of property and casualty lines of business through offices located in Bermuda, Hong Kong, Ireland, Singapore, Switzerland, the United Kingdom, and the United States. The company mainly operates in three business segments: U.S. insurance, international insurance, and reinsurance. AWH competes against companies like ACE Limited, Arch Capital Group Ltd., Chartis Inc, PartnerRe Ltd., and HCC Insurance Holdings, Inc.*

Price (\$) : (08/24/12)	77.33	Beta:	0.79	FY: Sep	2011A	2012E	2013E
Price target (\$) :	89.75	WACC (%)	7.15	Revenue (Mil)	1,457	1,644	1,733
52 WK H-L (\$) :	80.1-49.2	L-Term Rev. Gr Rate est (%) :	3.00	% Growth	7.20	21.00	5.41
Market Cap (mil):	2,766	L-Term EPS Gr Rate est (%) :	2.00	Expense Ratio (%)	34.17	30.50	31.72
Float (mil):	2,711	Mid-Term Rev. Gr Rate est (%) :	5.00	Combined Ratio (%)	95.96	89.11	90.13
Short Interest (%) :	0.71	Financial Leverage	3.62	EPS (Cal) (\$)	7.65	11.82	11.11
Avg. Daily Vol (mil) :	0.11	ROA (%) :	4.70	P/E (Cal)	10.11	8.29	6.96
Dividend (\$) :	1.875	ROE (%) :	15.4	BVPS (\$)	83.44	91.36	106.70
Yield (%) :	2.38			P/B	0.75	0.85	0.72

### Recommendation

As the uncertainties in the global market continue, companies with robust financial health and strong profitability seem more attractive than ever. Among many financial institutions, Allied World Assurance is a good portfolio holding because of its revenue stability, profitability, and growth opportunities. AWH announced its Q2 earnings results on July 31<sup>st</sup> and the company's quarterly revenues were up 25% on a YoY basis. Even with weaker net investment income, the company managed to beat the consensus estimate EPS of \$1.76 by \$.59, driven primarily by strong revenue growth in all three segments. Compared to its peers, AWH boasts a conservative balance sheet with a low financial leverage of 3.62. For such reasons, it is recommended that Allied World Assurance AG be added to the AIM International Equity Fund with a target price of \$89.75, which offers a potential upside of 16% with an attractive 2.38% dividend yield.

### Investment Thesis

- Strong financial health and well diversified product line.** AWH has a total debt to equity ratio of 24.3%, making it one of the less leveraged companies among other firms in this sector. AWH also carries a conservative investment portfolio. For example, AWH's fixed income portfolio has an average duration of approximately 2 years; one of the lowest in the industry. AWH also stays away from many high yield fixed income securities, including European sovereign and corporate debt issues. While this strategy currently yields a lower level of investment income than others in the industry, it does put the company in a good position against sudden investment capital losses. Its diversified product line also provides protection for AWH investors as the firm derives about 40% of its revenue from the U.S. insurance segment, 30% from international insurance, and 30% from the reinsurance business. AWH offers traditional casualty and property insurance along with its niche reinsurance programs and coverage in areas like catastrophe, professional liability, and specialty lines. For such reasons, seven of nine subsidiaries of AWH are rated "A" by S&P and eight are rated "A" by A.M. Best. Additionally, its Lloyd's Syndicate 2232 is rated A+ (Strong) by Standard & Poor's and Fitch.
- Growth opportunities driven by a strong market position in the U.S.** AWH generates about 40% of its revenue from the U.S. insurance segment. The firm mainly targets direct property and casualty insurance for small and middle-market non-Fortune 1000 companies. In the past, AWH

was not a big contender in the U.S. market due to its smaller size; however, in the past few years, through series of acquisitions, it has successfully built up sufficient economies of scale to compete with other insurers with its competitive pricing. As a result, gross premiums written in the U.S. insurance segment increased from \$200M in 2007 (13% of total GPW) to \$838M in 2011 (40% of total GPW). There is still more room to grow in this market for AWH as it can further utilize its scale of economy in the U.S. insurance market.

- **Increase in profitability.** After ROE declined during the 2008 to 2011 period, the firm's ROE resurged back as AWH started to utilize some of the acquisitions made in previous periods, such as the build-out of the U.S. platform, the acquisition of Darwin, the establishment of a U.S. reinsurance company. The expense ratio increased from 26.7% in 2008 to 32.8% in 2010, while that of the peer average moved from 31.3% to 34.2%. In 2012, ROE has increased to 15.4% and the expense ratio has dropped to 29.2%; significantly lower than a peer average of 34.4%.

## Valuation

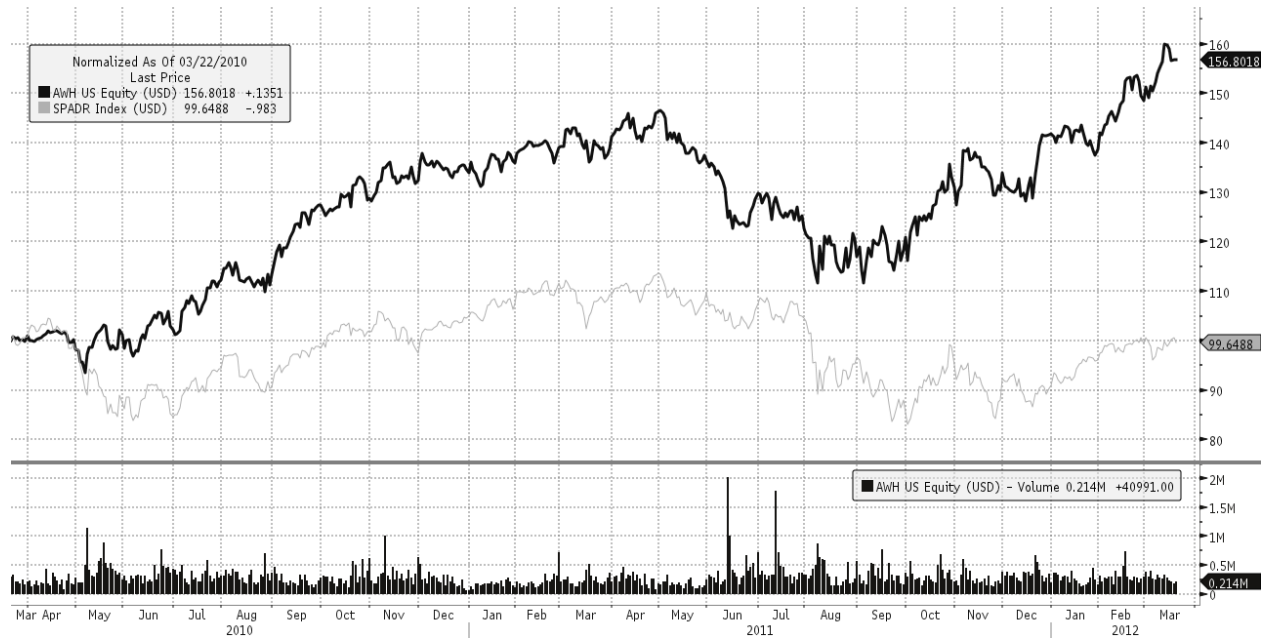
To find the intrinsic value of AWH, the P/E method, P/B method, and excess equity return method were used. Since AWH operates globally in different segments, it is hard to define true competitors. Therefore, historical multiples since 2006 were used. AWH has been traded at an average P/E ratio of 7.17x and P/B ratio of .90x historically. With 2013 estimated EPS of \$11.11, estimated by sum of three different business segments, price target of \$79.66 was found for P/E method and \$94.32 for P/B method by using 2013 estimated BVPS of \$106.7. The sensitivity analysis for different possible multiples and 2013 estimated earnings suggested the target price can range from \$72 to \$118. Expected equity return method was used to discount future retained earnings with cost of equity of 8.53% to generate a target price of \$93.61. By weighing P/B 40% and P/E and equity return model 30% each, an intrinsic value of \$89.75 was found, providing 16% upside from the current price. The company pays a 2.38% dividend yield.

## Risks

- **Downgrades or the revocation of the financial strength ratings.** A strong balance sheet and high credit ratings have been important factors in this company's growth. It is common for reinsurance contracts to contain terms that would allow ceding companies to cancel a contract if insurance subsidiaries are downgraded below an A-. Currently, AWH is rated as a solid A by S&P.
- **Significant losses and volatility in financial results from catastrophic events.** As a multi-line casualty and property insurer and reinsurer, AWH could experience significant losses from claims arising out of catastrophic events. U.S. GAAP does not permit insurers and reinsurers to reserve for catastrophes until they occur and claims for these events could cause substantial volatility in financial results for any fiscal quarter or year which can affect financial ratings. The last three recent events that affected AWH were the 2011 Japanese earthquake/tsunami, 2010 Chilean earthquake, and 2008 hurricanes Gustav and Ike.
- **Interest rate risk.** Investment income remains challenging in the current low interest environment, as insurance companies place most of their investment in fixed income securities. A prolonged period of extremely low interest rates or a sudden jump in interest rates could challenge the firm's ability to earn a sufficient investment return. AWH appears to be well positioned against a sudden jump in rates as its current fixed maturity portfolio has a duration of about 2 years, one of the lowest in the industry.

## Management

Scott A. Carmilani was elected as AWH's president and CEO in January 2004. Prior to joining the company in 2002, he was the president of the Mergers & Acquisition Insurance Division of subsidiaries of AIG. He was appointed Chairman of the Board in January 2008.



### Ownership

% of Shares Held by All Insider and 5% Owners:	27.9%
% of Shares Held by Institutional & Mutual Fund Owners:	97%

Source: Bloomberg

### Top 5 Shareholders

Shareholder	Shares	% Out
Fidelity Management & Research	2,459,668	6.88
Vanguard Group Inc.	2,235,710	6.25
Clearbridge Advisors LLC	2,225,350	6.22
Artisan Partners Holdings LP	2,166,733	6.06
Champlain Investments Partners	1,468,445	4.10

Source: Bloomberg

## AMN Healthcare Services (AHS)

August 31, 2012

Greg Trunk

Healthcare

*AMN Healthcare Services (NYSE: AHS) provides placement of permanent and temporary healthcare professionals and workforce management solutions across three functional divisions; Nurse and Allied Healthcare Staffing (64% of revenue), Locum Tenens Staffing (31%), and Physician Permanent Placement Services (5%). AHS's Nurse and Allied Healthcare Staffing concentrates upon providing a variety of nursing and other healthcare professional staffing services to medical organizations. This includes managing all temporary nursing and allied needs, traditional temporary hiring services, and managing the outside recruitment process. The Locum Tenens division places physicians with clients on a temporary basis and Physician Permanent Placement Services assists clients in finding healthcare professionals for permanent employment. The company was founded in 1985 and is headquartered in San Diego, California.*

Price (\$) (8/24/12)	7.72	Beta:	1.72	FY: December	2011A	2012E	2013E
Price Target (\$):	11.12	WACC	9.0%	Revenue (Mil)	887	976	1,074
52WK Range (\$):	3.60-7.87	M-Term Rev. Gr Rate Est:	6.0%	% Growth	32.47%	10.00%	10.00%
Market Cap:	\$319.89M	M-Term EPS Gr Rate Est:	10.0%	Gross Margin	28.09%	27.00%	26.00%
Float	40.5M	Debt/Equity	62.2%	Operating Margin	1.57%	3.41%	4.74%
Short Interest (%):	3.8%	ROA:	-4.6%	EPS (Cal)	-\$0.07A	\$0.29E	\$1.24E
Avg. Daily Vol:	156.5K	ROE:	-16.8%	FCF/Share	\$0.32A	\$0.53E	\$0.81E
Dividend (\$):	N/A			P/E (Cal)	N/A	26.62	9.67
Yield (%):	N/A						

### Recommendation

AHS is well positioned to capitalize off of an aging U.S. population increasing demand for healthcare services and an insufficient supply of medical professionals. As the largest company within the highly fragmented and emerging \$9 billion industry, the company is able to leverage its size into minimizing healthcare costs for clients while maximizing quality. It has a portfolio of over 10 different staffing agencies with specifically tailored market focuses. AHS' national scope ensures clients can rely upon it to handle all personal needs instead of multiple vendors or human resource departments. Furthermore, AHS national awards and quality certifications are a critical advantage in an industry where the median medical malpractice award is \$290,000. Their business model strengths have fueled AHS 2011 fiscal year revenue growth of 31%; 20% more than the industry standard. In addition, economies of scale have contributed toward five consecutive quarters of operating margin growth from 3.58% to 5.56% and a long run industry leading ROE in the 12-15% range in the historically competitive temporary labor market. Together, these competitive advantages of operational efficiency and superior staffing ability have enabled AHS to beat quarterly earnings for 4 consecutive quarters by 30-70%.

### Investment Thesis

**Industry Expansion** - The twenty year old temporary medical staffing market is less than 2% of the \$500 billion overall spending on U.S. physician and clinical services. The medical staffing market grew at 9.5% last year, outpacing the 6.6% rate in overall clinical and physician market. It is estimated that the average healthcare organization could save \$17,000 per nurse and \$32,000 per doctor by switching to temporary staffing services. There are 2.7 million nurses and 788,000 doctors within the United States, representing potential cost savings to employers of over \$70 billion annually. Growing recognition of direct labor savings and increasing operational flexibility should fuel a strong, overall continued long term expansion of the industry.

**Supply Shortage of Healthcare Professionals** - A current and growing shortage of physicians, registered nurses and certain allied healthcare professionals will result in increased demand of AHS'

recruitment and placement services. Approximately 47% of all licensed physicians in the United States are at least 50 years old and nurses over the age of 50 comprise 45%. Additionally, 55% of nurses over age 50 are expected to retire within the next ten years according to the Nursing Management Aging Workforce Survey - and according to the Association of American Medical Colleges, nearly one-third of all physicians will retire in the next decade. The estimated physician shortage is expected to quadruple from 30,000 currently to 130,000 by 2025 and nursing demand is expected to grow from 300,000 to around 800,000. These growing shortages are despite the fact that overall employment of physician and nurses are expected to rise by 24% and 26% respectively over the next decade according to the U.S. Bureau of Labor, more than any other common professional category. AHS will benefit on both demand and supply sides as healthcare organizations increasingly rely upon staffing agencies to solve staffing shortages and there is a growing pool of qualified candidates.

**Increased Reliance upon Healthcare Companies** - The U.S. Census Bureau projects the population of people over 65 to double by 2030 from 35 million to 71 million. Admissions for the over-65 age group are expected to rise from 38% in 2004 to 56% in 2030. Patients age 65 and older typically average six to seven doctor visits per year compared to two to four visits annually for those under age 65. If the annual number of visits continues at the present rate, the U.S. population will make 53% more trips to the doctor in 2020 than in 2000, according to report by Association of American Medical Colleges. In order to accommodate the larger influx of patients' healthcare organizations will be driven to rely more upon the staffing services AHS provides.

### **Valuation**

To compute the intrinsic value of AHS, a 5 year DCF, P/S, and EV/EBTIDA approach was used. In the DCF analysis a growth rate of 10% growth rate was used in years 3-5, a 1% perpetual growth rate and a discount rate of 11%. A premium of 2% was added to the WACC to reflect the large financial leverage present and cyclicity of the business. Through using a multiple approach with a long term historical P/S of .47X and an EV/EBTIDA of 12X yields respective values of \$11.74 and \$10.60. Based upon a triangulation approach with weightings of 50% DCF, 25% P/S, and 25% EV/EBTIDA, an estimated price target of \$11 was established, representing a potential upside of 38%. No dividend is currently paid.

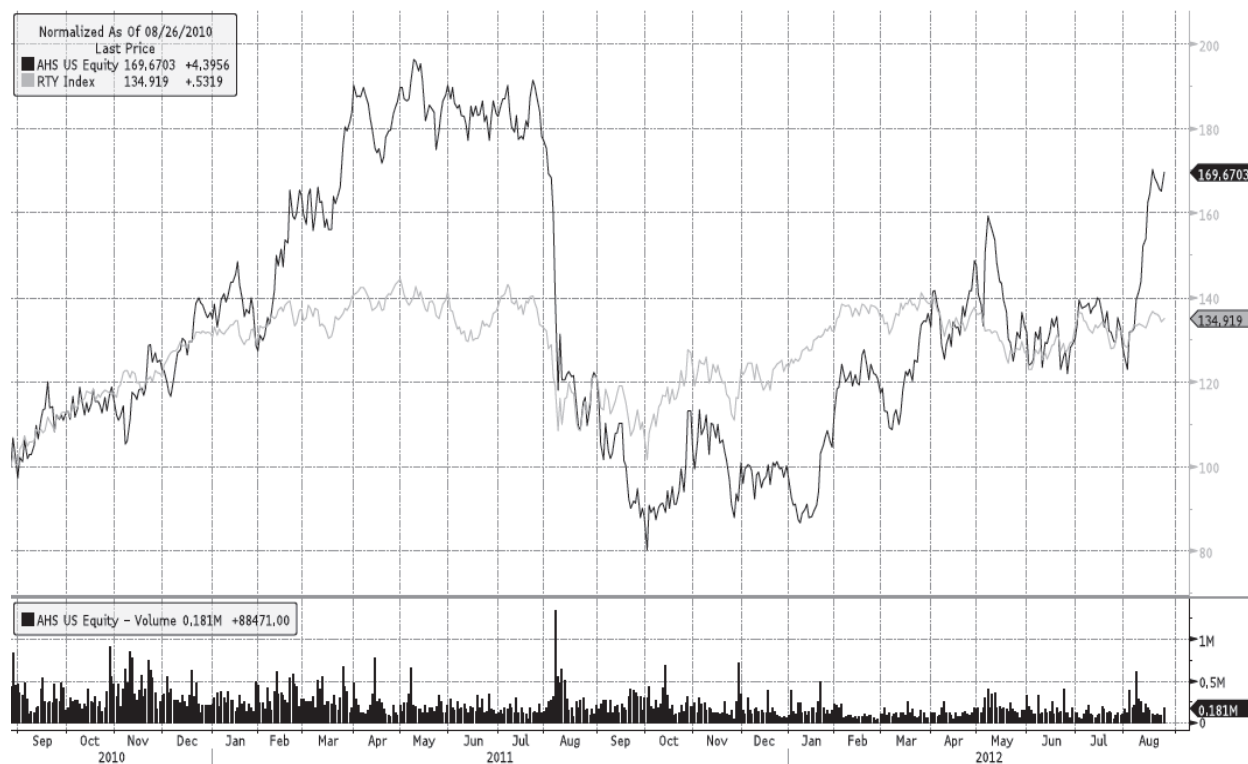
### **Risks**

**Economic Sensitivity** - Demand for staffing services is closely correlated to changes within the economy. During times of economic downturns medical professionals are less likely to leave and are more likely to work additional hours. In addition the rise in general unemployment during times of economic distress results in increased amounts of uninsured patients, which intern produces subsequent underutilization of the healthcare system. The factors of reduced healthcare system demand by patients and increase supply of medical professionals leave AHS sensitive to changes in the aggregate economic activity level.

**Regulatory Risk** - Though AHS does not derive any revenue from Medicare or Medicaid it clients typically are heavily reliant upon the programs. Changes in provider reimbursement methods and payment rates could influence demand and pricing for AHS services. Furthermore, it is currently an industry standard to treat physicians as independent contractors. If federal or state governments define contractors as employees it could expose AHS to additional taxes. In addition some states have laws that prohibit non-physician owned companies from employing physicians. Classification of AHS current independent contractor physicians as employees in states that prohibit the corporate practice of medicine could prohibit AHS from operating the Locum Tenens portions of its business in those states.

### **Management**

Susan Salka has been the CEO of AMN Healthcare Service since 2005. She previously held a variety of positions since joining the company in in 1990 including VP of healthcare services and business development. She was named San Diego's Most Admired Public Company CEO. Brian Scott has been Chief Financial Officer since 2011 and joined the company in 2003. He previously served as the Senior VP of Operations Finance.



### Ownership

% of Shares Held by All Insider and 5% Owners:	45.4%
% of Shares Held by Institutional & Mutual Fund Owners:	87%

Source: Bloomberg

### Top 5 Shareholders

<u>Holder</u>	<u>Shares</u>	<u>% Out</u>
Edgepoint Investment Group	6,768,100	16.57%
Invesco LTD	4,288,925	10.50%
Metropolitan West Capital Mngt	2,444,149	5.99%
Manulife Asset Management	2,343,870	5.74%
Vanguard Group Inc	2,160,835	5.29%

Source: Bloomberg



**Total Petroleum S.A. (TOT)**  
August 31, 2012

Varun Varma

International Energy

*Total S.A. (NYSE: TOT) is the fifth largest publicly-traded international integrated oil company in the world. TOT generates revenue from three segments: Upstream (65%), Downstream (25%) and Petrochemicals (10%). Upstream activities include oil/gas/LNG E&P operations, while downstream activities include refining and marketing of oil products, which has allowed TOT to become one of the largest refiners in Europe. They have one of the most diversified operations across more than 130 different countries with primary regions of: Europe (70.5%), Asia (14.8%), Africa (7.5%), and North America (7.2%). Incorporated in 1924, TOT employs 96,000 globally with headquarters in Paris, France. One TOT ADR represents one ordinary shares of TOT on the Paris Exchange (FP.FP).*

Price (\$) (8/24/12)	49.11	Beta:	1.12	FY: December	2011A	2012E	2013E
Price Target (\$):	60	WACC	9.1%	Revenue (Mil)	208,196	240,535	265,514
52WK Range (\$):	40.00-57.06	M-Term Rev. Gr Rate Est:	5.4%	% Growth	14.6%	15.5%	10.4%
Market Cap (\$):	116.1B	M-Term EPS Gr Rate Est:	5.6%	Operating Margin	15.0%	14.8%	14.6%
Float	2365.10M	Debt/Equity	47.4%	Profit Margin	7.6%	7.2%	7.2%
Short Interest (%):	0.01%	ROA:	8.0%	EPS (Cal)	\$6.97A	\$7.65E	\$8.39E
Avg. Daily Vol:	4.289M	ROE:	19.1%	FCF/Share	\$3.53	\$4.10	\$4.53
Annual Dividend (\$):	2.97	Proven Reserves (bBOE)	11.40	P/E (Cal)	7.0x	6.4x	5.9x
Yield (%):	6.05%	Production (mBOE/d)	2.26				

**Recommendation:**

Based on research conducted by the National Petroleum Council, the demand for oil will outstrip the supply, which will cause a tight supply/demand dynamic for the world. In order to meet the global demand estimates of 118m barrel per day by 2030, oil and gas companies are going to have to start tackling the challenges of exploring unconventional sources for oil and gas as consumption increases. TOT is well positioned for this with its future projects and shift in strategy to develop more unconventional sources of energy. Since 2010, TOT has strategically divested in total ~\$15B of its maturing assets in non-core areas. This will allow them to reposition into growth oriented geographical areas as well as different sources of energy. TOT will be able to meet demand with the more than 25 new start-up projects projected to add 600kboe/d by 2015, along with their new projects coming online in 2012 that include Pazflor, Usan, and Angola LNG. In addition, TOT is trying to restructure its downstream operations in order to be able to supply energy to the future areas of demand growth, which will be led by non-OECD nations. The restructuring is expected to increase profitability by 5% for downstream operations. Along with their impressive dividend yield of over 6%, TOT is recommended to be added to the AIM Fund with a price target of \$60– providing an upside of 22%.

**Investment Thesis**

- **Aggressive Global Development to Upstream.** Since 2010, TOT has increased investment on various projects in order to increase production volume and cash flows. Management expects capex spending to continue to be \$20B-\$25B, which should allow for diversification into different types of projects and energy sources. TOT was able to acquire 5Bboe resources at less than \$3/boe for future upstream operations in 2011. With continued acquisitions of resources, TOT will be able to achieve certain benchmarks in production volume and margin expansion into the future. Not only that, but the long-term ramp up on investment, will eventually give way to organic production growth, which is targeted by management to be ~2.5% CAGR by 2016.
- **Repositioning Strategy.** TOT is well positioned with its future projects and shift in strategy to develop more unconventional sources of energy such as Liquid Natural Gas (LNG), heavier oils and less conventional hydrocarbon liquids. TOT is expected to benefit from what the

International Energy Agency (IEA) calls the “Golden Age of Gas,” by currently being the second-largest LNG player in the world. In addition, more than 70% of LNG supply is already committed on long-term contracts indexed to oil prices. The inability of the United States to export natural gas and LNG in the short term to meet demand outside of the U.S. will benefit TOT. The most attractive markets for TOT to supply gas to are still Europe and Asia, where the World Bank expects natural gas prices to stay around \$10/mmbtu and LNG to stay around \$12.5-\$15/mmbtu until 2020. The expected demand CAGR for gas and LNG by 2020 is 2.5% and 5.0%, respectively.

- **Attractive Dividend.** TOT has one of the largest dividend yields in the sector (TOT: ~6% v. Sector: ~2%), which they have been able to consistently increase and payout. Since 2003, TOT has had a dividend growth CAGR of 7%. They firmly believe in being able to return cash back to investors by targeting a payout ratio of 50%. Historically, TOT has maintained the payout ratio in a 40%-50% payout ratio band, which should continue into the future with the strengthening cash flow from future organic growth.

### Valuation

To value TOT, a 5-year DCF methodology was used along with an EV/EBITDA and EV/BOE/d multiple methodologies. Using a WACC of 9.1% along with a terminal EV/EBITDA multiple of 3.5x resulted in a valuation of \$56. The EV/EBITDA methodology applied a blended peer multiple of 4.0x against the estimated 2013 EBITDA of \$42B, with a valuation of \$66. The EV/BOE/d methodology applied a blended peer multiple of 65.0x to estimated BOE/d by management of 2.3MBOE/d, with a valuation of \$58. Weighing the DCF 40%, EV/EBITDA multiple 30%, and EV/BOE/d multiple 30%, the target price of \$60 was achieved, yielding an upside of 22%.

### Risks

- **Substantial Decline in Commodity Prices.** A decline in commodity prices can have a negative effect on TOT. TOT estimates that a \$1/bbl decrease in the annual average price of Brent would reduce net operating income by \$0.14B. Despite the dependence of commodity prices in order to generate revenues, TOT has been able to diversify as a vertically integrated oil company to reduce the pressure on declining commodity prices since the downstream operations would see operating margin expansion with declining commodity prices.
- **Unexpected Disruptions in Production.** Delays or stoppages in production are normal for major oil companies in order to perform maintenance on existing production assets. However, any unexpected delays or stops in the production can have a significant impact on revenues due to reduction in boe/d numbers such as the Elgin leak incident in April ‘12 for TOT, which reduced TOT’s boe/d by 50kboe/d for over 9 months. This specific delay will cost \$400m in lost production and cleanup costs.
- **Operations in Politically Sensitive Areas.** TOT conducts operations in some the most areas politically unstable areas of the world such as Iran, Syria, Sudan and Cuba. TOT also had exposure to the “Arab Spring” in 2011, where production was halted in nations such as Liberia and Egypt. Operating in these unstable areas can cause unexpected disruptions in production as well as increase costs in order to cooperate with the governments.

### Management

Christophe de Margerie has been CEO of Total S.A since 2007 and Chairman of the Board since 2010. Christophe has been with Total S.A. since 1974 and has served in various executive capacities throughout his tenure. The almost 40 years of experience in the energy industry has been integral to his success as well as Total’s. Patrick de la Chevareidere has been CFO since 2008. He initially started with TOT in 1982 as a Drilling Engineer and has served in the Finance Division in several roles since 1989 including the role of Deputy CFO from 2003-2008.



### Ownership (TOT)

% of Shares Held by All Insider and 5% Owners:	0.01%
% of Shares Held by Institutional & Mutual Fund Owners:	18.09%

Source: Bloomberg

### Top 5 Shareholders (TOT)

Holder	Shares	% Out
Wellington Management Company, LLP	19,109,621	0.81
Vanguard Group Inc.	14,984,052	0.63
BlackRock Advisors, LLC	9,932,718	0.42
Allianz Global Investment	8,793,180	0.37
Fayez Sarofim	8,370,969	0.27

Source: Bloomberg