



Student Investment Association

2018 Calendar Year Report

1/17/19

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President's Letter

As we close another academic year at Michigan State, the Student Investment Association holds its place as the preeminent learning ground for undergraduate investors. During the fall semester, the SIA participated in the Broad Fall Welcome and were overwhelmed with over 65 new individuals at our initial meeting. Our population stabilized near 30 active members by the end of the year and we continue to engage with students that have expressed interest in financial markets.

When I took over as president in May of 2018, we had just come out of some intense market volatility in February and March and I was enjoying the steady summer march of the S&P which climbed nearly 400 points. Unfortunately, just as the weather turns on a dime in Michigan, so did Mr. Market's mood in early October and again in December with the indices quickly losing nearly 20% in value. During this time, Fed Chair Jerome Powell kept strong in his position to raise interest rates and many soothsayers were calling for a recession. But just as quickly as the market turned sour, it would turn around again in January. Luckily, due to some resilient positions in our portfolio, we recouped our losses by mid-February and once again are looking at calmer waters in the market.

In the Student Investment Association, we often find it a challenge to retain members for two reasons, either we shift our focus towards our younger members to bring them up to speed, or in contrast, we shift to our upperclassman and alienate the freshman and sophomores who haven't had as much training. To combat this, we've slowly been trying to adapt the SIA's style to create a dynamic learning environment for all members. While we have certain objectives to hit each semester in terms of education, we've challenged our directors of education to have more group involvement at each meeting and hands-on learning exercises as opposed to a lecture which was the status quo. Through this initiative, we've started development of modeling modules that start with the basics of valuation and will progressively become more advanced to accommodate the skill levels of all our members.

It is my hope, that if you are reading this, you have an inherit interest in our organization and look to make a connection with us. If you are an alumnus of SIA or just MSU, we are continually striving to improve our alumni/professional relationships and appreciate all the feedback you have to offer us! If you are interested in having the Student Investment Association visit your place of work on our next roadshow, please contact me at vallier8@msu.edu.

Executive Board – Academic Year 2018-2019



Jake Vallier, President- Jake is a junior in the Broad College majoring in finance and minoring in economics. Over the summer, Jake interned at Quarton International as an investment banking analyst in the middle market. Next summer, Jake will be interning as an investment banking summer analyst at Wells Fargo Securities. On campus, Jake is a member of the Financial Markets Institute and a student trainer for Adventis Financial Modeling. In his free time, Jake enjoys playing hockey, watching MSU basketball, and golfing.



Justin Zabinski, Vice President- Justin is a junior in the Broad College of Business studying finance. He hopes to pursue a career in investment banking. This past summer, Justin interned with FINNEA Group in Birmingham, MI. The previous summer, he interned as a summer analyst for Boulevard & Co., a boutique investment bank located in Royal Oak, MI. Justin was previously an analyst for the consumer goods sector. In his free time, he enjoys golfing, playing poker, and playing hockey.



Austin Fillmore, Co-Director of Education – Austin is a senior in the Broad College of Business studying accounting. This past summer, Austin interned with William Blair's Investment Banking Division in Chicago, IL. His sophomore summer, Austin interned at FINNEA Group, a boutique investment bank located in Birmingham, MI. Austin is a Financial Markets Institute Scholar. Upon graduation, Austin hopes to work in investment banking. Besides finance, Austin enjoys fishing, hunting, and running.



Zack DeLang, Co-Director of Education- is a sophomore in the Eli Broad College of Business with a major in finance, as well as a minor in Computational Mathematics Science and Engineering. This past summer, Zack interned at Calder Capital, a mergers and acquisitions advisory firm, working mainly with their buy-side advisory team. Zack is also a Professorial Assistant on campus, as well as a Financial Markets Institute Scholar. In his free time, he enjoys golfing, watching sports, and spending time with friends.



Anthony Aaron, Co-Portfolio Manager- is a senior finance major in the Broad College of Business with a minor in Japanese. This past summer he interned at Barclays, in New York, working in their equity research division. In his free time, he enjoys playing basketball, reading and going out with friends.



Parker Decraene, President – Parker is a Senior in the Broad College of Business studying finance with a minor in economics. This upcoming summer, Parker will be joining Citi’s Equity Research Division in New York, NY. This past summer, he interned with PricewaterhouseCoopers in Chicago, IL with their Transaction Services – Valuation practice. He hopes to pursue a career in equity research. In his free time, Parker enjoys reading, playing soccer, and cooking.



Alyssa Mills, Head of Business Development- is a sophomore finance major in the Broad College of Business with a minor in International Business. This past summer she interned at a start-up company, Brite Bites, in Lansing, MI and continues to intern there part-time. Alyssa is also the Scholar. Upon graduation, Alyssa hopes to work in investment banking. In her free time, she enjoys skiing, reading, and traveling.

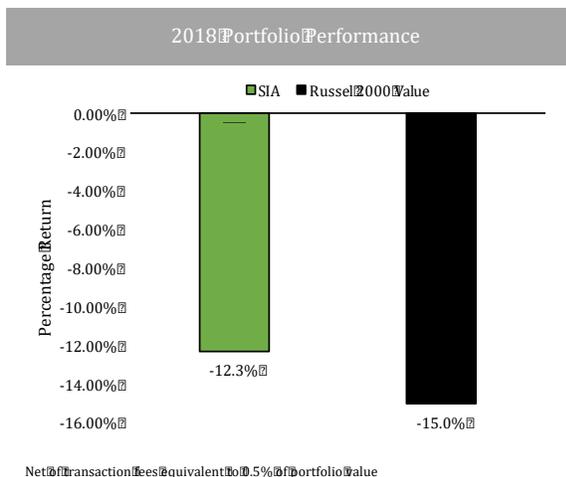


Jonathan Zaremba, Head of Business Development (1st Semester) – Jonathan is a Junior in the Broad college of business studying Finance.

Investment Strategy

The Michigan State University Student Investment Association is a small-cap value, long-only fund. The SIA defines small-cap as \$300 million to \$3 billion market capitalization. In addition, the strategy involves a focus on value. This selection process targets stocks with valuation below its peer groups or on a discounted cash flow basis. We try to find securities that we believe will outperform due to an identifiable catalyst that will drive the valuation to its fair value.

Our benchmark is the Russell 2000 Value Index. We aim to maintain a weight of +/- 15% for each sector in relation to the benchmark. The final decision process for our portfolio weighting is based off of the Portfolio Managers.

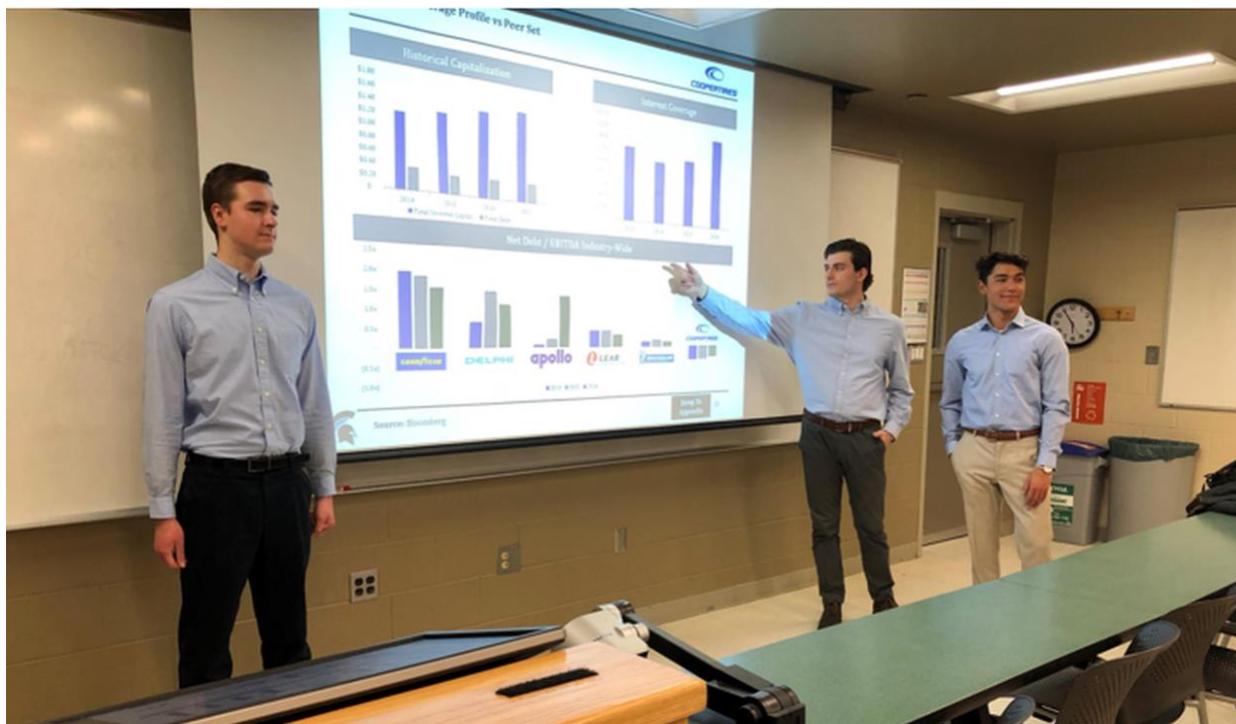


Pitch Structure

Pitches occur once a semester in the last few weeks of classes. These pitches run for about 15-20 minutes with 10 minutes of Q&A. These pitches focus on presenting the selected company and what makes said company a good investment. In order to participate in these pitches, members must join the analyst program.

To join the Analyst Program, SIA members must submit an application which includes their resume and answering several relevant questions. After a review by the Executive Board, a number of applicants will be moved forward to the interview round. These interviews are both behavioral and technical in nature. Following interviews, applicants are informed if they will join the program. Once the Analysts are selected, they are broken up into small teams with a Lead Analyst, who facilitates the research and pitch creation project. In contrast to previous years where we broke teams out into industry verticals with a sector head, each team is free to pitch any company they see value in.

During the course of the semester, the teams perform research to determine a company that fits our small cap value approach. As the semester progresses, each team will build a pitch deck and a financial model, most typically a Discounted Cash Flow model. At the end of the semester, each team will present their investment idea for consideration to the entirety of the SIA. After each presentation the members of SIA vote on whether or not to take a position in the company, and if the acceptance rate is equal to or exceeds 66% then the security is further reviewed by the Executive Board and ultimately SIA takes a position in the company.



Initiated Positions



Masonite International (DOOR), Buy at \$60

Masonite international is a manufacturer of architectural and industrial doors intended for both residential and commercial developments. Masonite is primarily located in North America with a growing footprint in Europe through recent acquisitions in the U.K.

Our thesis involved strong downward pressure on the stock due to market overreaction of bad weather in the southern U.S. which accounts for much of Masonite's annual revenue. Additionally, we believed the Company's recent acquisitions in the U.K. market have been overlooked due to the heightened coverage of Brexit and its potential impacts.



Zagg Inc. (ZAGG), Buy at \$9.80

Zagg Inc is a consumer electronics company that focuses on the sale of phone cases and screen protectors, most notably selling products through their InvisibleShield product line. Our investment thesis focuses on the fact that ZAGG is a dominant market leader in their specific categories, and have a history of strong execution, particularly after recent acquisitions such as Mophie and gear4. We are concerned as Apple Inc. continues to stress how they are pushing away from hardware and back into software and also concerned about the companies ability to expand in lower-priced markets such as China. We continue to hold the stock with a price target of \$13



Craft Brew Alliance (BREW), Buy at \$16

Craft Brew Alliance (BREW) focuses on the sale of several different types of craft beer and cider. We are positive on a couple of their products, particularly the Kona brand which primarily sells in Hawaii markets. While we believe the company faces significant headwinds from changing consumer tastes, we also believe there is a significant opportunity of a sale of the business to AB InBev as they have a current option to buy the company at \$24.50 by August 2019. We believe this transaction is not extremely likely to happen, however, we do believe it slightly supports shares at current levels. We believe there is a larger chance of the acquisition happening than the market currently believes. We continue to hold the stock until the end of 2019, unless any major changes occur such as a buyout bid.

SIA Scholarship

As a new initiative, the Student Investment Association is in the process of developing an annual scholarship to award once each semester to an outstanding member who has shown a strong passion for the financial markets and a commitment to the betterment of the SIA.

Goals of the Scholarship:

- Provide 1 student each semester with a \$500 scholarship named for the SIA
- Promote leadership amongst our members and encourage the importance of financial literacy and sound investing fundamentals

Our Plan to Achieve This

- Raise through contributions of current E-Board and donations from alumni, an aggregate total of \$20,000, bringing our AUM up to \$50,000
- At a level of \$50,000, our portfolio will be able to support our planned scholarship acting as a form of an endowment

If you are an alumnus and are interested in supporting the scholarship or have more questions, please email [Jake Vallier](mailto:jake.vallier@msusia.org).

Alumni & Graduating Seniors

Our alumni have historically been very successful in placing themselves in competitive careers in financial services. These alumni can be found at top global firms such as Morgan Stanley, Deutsche Bank, Barclays, Goldman Sachs, Bank of America Merrill Lynch, Jefferies, Wells Fargo Securities, Keefe Bruyette & Woods, and Citigroup.

As an organization that focuses on teaching the basics of investing to younger students, our seniors are critical members in the organization. Thank you for your hard work and dedication to the Student Investment Association. We wish you the best of luck in your future endeavors.

If you are an alumnus of the Student Investment Association and want to get involved with the club or receive our Annual Reports, please reach out to [Jake Vallier](#).



Spring Roadshow

Every spring semester the Student Investment Association travels on a roadshow visiting various financial services firms. The students that attend are selected based on their dedication to the organization, proven interest in careers in financial services, and impact in the analyst program. On the trip these students learn beneficial information about the recruiting process and role.

This past spring, Student Investment Association traveled to New York City and visited with the firms below:

- Antares Capital
- Bank of America
- Citigroup
- Goldman Sachs
- Greentech Capital Advisors
- Highbridge Capital Management
- Stifel Financial Corp.
- Wells Fargo Securities

During the next academic calendar year, in April 2020, Student Investment Association will be traveling back to New York City. If your firm is interested in hosting approximately 15 of our members, please contact [Jake Vallier](#).



SIA at Bank of America!

Example Stock Pitch

Buy: Hawaiian Holdings (HA)

Initiate: Hawaiian Navigated the Headwinds and Is Poised to Return to Cruising Altitude

Anthony Aron, Lead Analyst
aronanth@msu.edu

Adwait Ahire, Analyst
 Nolan Gutschwager, Analyst
 Brennen Scholten, Analyst
 Kyle Zaback, Analyst
 Jonathan Zaremba, Analyst

We recommend a buy on Hawaiian Holdings (HA) at a price target of \$41. We derived this price target using a DCF analysis and the exit multiples method. Hawaiian Holdings is the largest airline in Hawaii and operates in the rest of North America, Asia and the South Pacific. We have recommended a buy based on flight expansions, cost cutting and management strategy.



Source: Bloomberg

Key Investment Highlights

Flight expansions in the Asian and North American regions will lead to top-line growth.

Hawaiian Airlines has recently agreed to a partnership with Japan Airlines, which we believe will give HA more pricing power when competing with some of the larger US airlines. HA is also expanding their services into New Zealand, giving them even greater control of the Pacific Region. HA has also been focusing more on middle market routes rather than their traditional larger routes. This will allow them to capture more market share from these new routes.

Future cost cutting will greatly improve long-term value.

HA has recently come to an agreement with active pilots regarding post-retirement medical benefits. They have paid a one-time payment of \$102 million to waive future costs. Also, they have settled IAM and salary pension plans with one-time cash payment of approximately \$17-22 million.

Management's strategy will lead to competitive advantage over peers.

Management for HA has been working towards acquiring a younger fleet for HA. This not only saves on maintenance costs but it will also reduce training costs of employees because they are acquiring only Airbus planes while also phasing out the remaining Boeing aircrafts. They have also made renovations to the seating layout of their aircrafts. This has improved customer experience thus improving overall RASM (revenue per available seat mile).

Market Data	
Last Price	\$36.15
Shares O/S (mm)	54.0
52 wk High-Low	32.40-60.90
Market Cap. (mm)	\$1900
Enterprise Value (mm)	\$1839

Source: Bloomberg

Financial Summary			
Data	FY16A	FY17E	FY18E
Revenue	2451	2627	2758
Adj. EBITDAR	629	692	726
Adj. EPS	\$5.19	\$4.96	\$5.20
Consensus Revenue	2443	2695	2847
Consensus Adj. EBITDAR	629	775	665
Consensus Adj. EPS	\$5.20	\$5.60	\$4.60

Source: Bloomberg

Company Overview

Hawaiian Airlines is the largest airline in Hawaii with 170 daily flights. They are also the eighth largest commercial airline in the US. Their main routes are from Hawaii to North America, Asia and the South Pacific. Also, their fleet currently consists of 58 aircrafts.

Investment Thesis

We believe that Hawaiian Airlines has been trading at a depressed price due to the news of other airlines threatening to add more routes to Hawaii. However, we also believe that HA offers a unique experience as well as an established position in the Hawaiian market that gives them a competitive advantage over their peers.

Products

HA offers differentiating, comfortable seats with the following amenities: extra legroom, entertainment packs and comfort kits. These products allow HA to provide customers with a comfortable and enjoyable experience when flying Hawaiian Airlines while most competitors fail to offer this level of experience.

Key Revenue Drivers

We believe that the key areas of growth for HA are their expansion into New Zealand as well as their added routes to middle market areas.

Our Forecast vs Street



Valuation

We valued HA using a DCF analysis along with the exit multiples method. We used an industry standard EV/EBITDAR multiple of 4.0x. We also used WACC as our discount rate of 9.8%.

Scenario Analysis

Bear – Our bear case PT is \$29. In this case we assume an EV/EBITDAR multiple of 3.0x which is just below the average for the past 5-year period. We also assume that competitors take market share from HA within Hawaii.

Base – Our base case PT is \$41. In this case we assume an EV/EBITDAR multiple of 4.0x which is just above the average for the past 5-year period. We also assume that HA does a good job fending off competitors in the Hawaiian region and expansion to Asia occurs as expected by management.

Bull – Our bull case PT is \$54. In this case we assume an EV/EBITDAR multiple of 5.0x which is just above the maximum for the past 5-year period. We also assume that HA fends off competitors as well as exceeds expectations in their expansion plans. Furthermore, in this case we assume that costs (fuel, wages, etc.) remain at current levels.

Catalysts

We believe that once the headwinds about the other airlines attempting to enter the Hawaiian market blow over HA will return to previous levels of around \$41 per share.

Risks

The main risk to our thesis is the possibility of some larger US airlines entering the Hawaiian market. There have been recent threats from both United Airlines (UAL) and Southwest Airlines (LUV) of doing just that. However, HA has taken steps to combat this risk by entering into the aforementioned agreement with Japan Airlines. One other potential risk to HA could be consumers' willingness to pay for luxury services. Because HA is a higher end airline consumers must be willing to pay for the extra amenities that HA offers. We believe that HA has mitigated this risk by making the experience that customers receive when flying Hawaiian well worth the money.

Management Team

Mark B. Dunkerley (President and CEO): Joined HA in 2002 and also a member of the Board of Directors for HA

Shannon L Okinaka (Executive VP and CFO): Joined HA in 2011 after working for Hawaiian Electric Co. and PwC

Jon Snook (Executive VP and COO): Jon oversees all flight operations, in-flight services, customer service, maintenance and engineering and operations analytics for HA

Model

Discounted Cash Flow Valuation

	2016	2017	2018	2019
EBITDAR	629	692	726	763
EBIT		441	463	486
Tax Affected EBIT		271	284	298
D&A		117	123	129
CAPEX		-192	-201	-129
NWC		-46	-34	-36
UFCF		150	171	262
LFCF		139	160	251
WACC (Bloomberg)	9.8% Cost of Equity (Bloomberg)		11.7%	
Present Value of UFCFs	477	PV of LFCFs	433	

Exit Multiples

2019 EBITDAR	763
EV/EBITDAR Exit Multiple	4.0x
Terminal Value	3051
Present Value of TV	2305

Enterprise Value	2782
Net Debt	-556
Equity Value	2226
# Diluted Shares Outstanding	54

\$41.25

\$36.15

14.1%

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EV/EBITDAR Multiple					
Bear		Base		Bull	
EV/EBITDAR Multiple	3.0x	EV/EBITDAR Multiple	4.0x	EV/EBITDAR Multiple	5.0x
Terminal Value	2187	Terminal Value	3051	Terminal Value	3970
PV of Terminal Value	1652	PV of Terminal Value	2305	PV of Terminal Value	2999
Sum of PV of UFCFs	484	Sum of PV of UFCFs	477	Sum of PV of UFCFs	469
EV	2136	EV	2782	EV	3468
Net Debt	-556	Net Debt	-556	Net Debt	-556
Equity Value	1580	Equity Value	2226	Equity Value	2912
Diluted Shares Outstanding	54	Diluted Shares Outstanding	54	Diluted Shares Outstanding	54
Current Share Price	\$36.15	Current Share Price	\$36.15	Current Share Price	\$36.15
Fair Value	\$29.28	Fair Value	\$41.25	Fair Value	\$53.97
Upside/Downside	-19.0%	Upside/Downside	14.1%	Upside/Downside	49.3%

Sensitivity Analysis

		EV/EBITDAR Exit Multiple					
		2.0x	2.5x	3.0x	3.5x	4.0x	4.5x
WACC	11.0%	\$19.00	\$24.17	\$29.34	\$34.51	\$39.68	\$44.85
	10.5%	\$19.37	\$24.61	\$29.85	\$35.08	\$40.32	\$45.56
	10.0%	\$19.74	\$25.05	\$30.36	\$35.67	\$40.98	\$46.29
	9.5%	\$20.12	\$25.50	\$30.89	\$36.27	\$41.65	\$47.04
	9.0%	\$20.50	\$25.96	\$31.42	\$36.88	\$42.34	\$47.79



msusia0@gmail.com

www.msusia.org