Week 1, Stock: Long MPEL by Jeff Talbert

Why You Should Make This Trade
1) Record Macau Revenues
2) Pure play on Macau
3) Stock at discount from recent levels
4) Record Macau Revenues

<table>
<thead>
<tr>
<th>Position</th>
<th>Buy/Short</th>
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<tbody>
<tr>
<td>Current Price</td>
<td>$4.09</td>
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<tr>
<td>Entry Price</td>
<td>$3.75</td>
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<tr>
<td>Target Price</td>
<td>$6</td>
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<tr>
<td>Stop Loss Price or Percentage</td>
<td>Stop at $3.50</td>
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My play for this week is Melco Crown Entertainment (NasdaqGS: MPEL). This is my second gaming industry pick for market rivals following BYD last semester. I follow the gaming sector very closely and believe that MPEL presents a very good opportunity at these levels. Melco owns casinos in the gambling Mecca of Asia; Macau, China. Over the last decade, Macau has gone from a mid-size tourist attraction with a gaming industry run by gangsters to the largest gambling destination in the world. The Chinese are very serious gamblers who have pushed the revenues of Macau past that of even Las Vegas.

The reason MPEL is attractive at these levels is the pure play it offers US investors on Macau’s growth. An investor could get some exposure to Macau if they bought US gambling titans Las Vegas Sands or MGM Mirage; however the opportunity for explosive growth in Macau would be diluted by struggling properties in Atlantic City and Las Vegas. MPEL is down to $3.76 from a high of near $8 a share last fall. This fall can be blamed mostly for the continuing poor monthly revenue reports that have been coming out of Macau. In a huge piece of news on February 1st, gaming revenue increased 63.3% yoy to $1.58 billion in January. Amazingly this number is the highest ever monthly revenue total for Macau, which means it has surpassed the 2007 peak. This is the main reason to buy MPEL as a play on Macau’s future growth, as record revenue for Macau should drive the shares towards $5 and beyond.

Investors in Macau should note a very important difference in the consumer base between US and Macau based casinos. Most domestic casinos generate massive revenue and profits from slot machines, which are the preferred form of gambling for most US casino players. Conflicting with their popularity, these machines have very bad odds and are extremely profitable to casinos. Chinese gambling on the other hand is comprised of mostly table games with very good odds. This dynamic requires a very large amount of revenue to earn the same amount of profit.

The markets are currently churning near their highs for the bull market. There has been obvious hesitancy to move stocks significantly higher here, despite the fact that GDP grew by a whopping 5.7% in the 4th quarter. Investors are still wary about the positive earnings reports because of conflicting economic reports. Housing data showed a massive decline following the government stimulus expiring. Many fear that the same thing will happen to the GDP numbers as the inventory replenishment cycle winds down and government stimulus ends. At this time I am cautiously constructive on stocks.
I consider my investment style to be chiefly focused on fundamentals with a medium to long term time horizon. I try to eliminate overall market volatility and sudden market movements from affecting my investments as much as I can. Having said this, my stock pick for this week is a buy of Bucyrus International Inc. I will first explain why Bucyrus is fundamentally an excellent buy with a target return of 41%. I will then indulge you with a preliminary technical analysis of the stock.

Bucyrus International, Inc. designs, manufactures mining equipment for the extraction of coal, copper, oil sands, iron ore and other minerals in mining centers throughout the world. In addition to the manufacture of original equipment, the Company also provides the aftermarket replacement parts and service for equipment. The Company operates in two business segments: surface mining and underground mining. The Company’s manufacturing facilities include Australia, China, Germany, Poland and the United States, and service and sales centers include Australia, Brazil, Canada, Chile, China, England, India, Mexico, Peru, Russia, South Africa and the United States.

There are a number of reasons why Bucyrus looks like a very good buy. Currently Bucyrus is trading at a P/E of 13.3 with EPS at $3.92. This is well below its sub-industry P/E average which is at 24.7X Earnings. At my six month target price of 74 the company will trade at 17.7X P/E multiple.
with earnings growing to $4.18. I believe this is a very conservative target taking into account the industry and also the fact that historically the market has always given Bucyrus a premium valuation.

Another factor that looks very encouraging is that Bucyrus has successfully diversified into other emerging markets such as Brazil, Russia and India. They have found a large number of new customers in these markets and this has propelled Bucyrus International’s EPS (Y/Y) to a staggering 41.7% which is phenomenal for a large company in an industry which averages a mere 18.6%. Accompanying that is a 5 year expected PEG Ratio of 1.1 to a current industry average of 1.9. Furthermore, BUCY is in the process of acquiring Terex’s mining businesses which will see BUCY benefiting from better supply and demand dynamics in the coal industry.

Now let’s look at Bucyrus International from a technical point of view. Over the past few weeks BUCY has fallen into a bearish trend. After 8 straight months of steady gains, January has seen the stock plummet from its peak of $68.57 to its current level. The basic chart pattern indicates a possible trend reversal. While the market strength is neutral the stock recently broke its 50 day moving average which is a bearish signal. The stock also broke the double bottom point (Bearish) last week However, both the 100 and 200 day moving averages are still rising. Looking at these signals I suggest a stop loss of around 47 in case the stock continues its downturn and then rebuying in once there is another reversal.

All in all, I don’t see much concern for investors looking at a slightly long term investment horizon. The recent fall in the price of has not changed my overall outlook for the stock. I believe that the recent market sell-off along with profit taking has had an effect on the drop in BUCY’s stock price.
Such a drop in price can be expected in a stock that has been continuously moving up for the past 8 months and should not deter investors looking for quality investments.

**Apple’s Next Conquest: The E-Book Business?**

By: Greg Herman

Mac Books, iPods, and iPhones simply aren’t enough anymore for the Cupertino based technology giant Apple Inc. Days after announcing extraordinary quarterly earnings, Steve Jobs unveiled Apple’s next technological gift to the public - the iPad. Now that the device has been officially unveiled, analysts and techies are trying to understand and predict the impact that this device will have in the future. It’s true that the iPad is indeed an E-reader, but it has much more to offer. However, many have questioned the entire point of the new device, stating that it serves no unique purpose that cannot already be accomplished with an iPhone or Mac Book. Even with somewhat mixed reviews, there is no doubt that this device will have a substantial impact on many different companies in the future.

Prior to the official unveiling of the iPad, analysts had predicted that this device’s entry price point would range from $700 to $1000. This type of price point would have clearly distinguished the iPad as a premium device, not even close to the price of E-readers and net books. However, Apple surprised analysts by placing the entry price point for the iPad at only $499. This price point puts the iPad in direct competition with Amazon’s Kindle, Sony’s Reader, and Barnes and Noble’s Nook. The other E-readers may be a few hundred dollars cheaper, but the combination of web surfing capabilities, a much larger screen, and access to the Apple App Store, make the iPad a formidable foe. For those who are not willing or able to dish out the $1000+ for a Mac Book, yet still love Apple products, this may be a match made in heaven. In addition to the current infrastructure, Apple announced that it is opening its own E-Bookstore in combination with the iPad. This is clearly a move to challenge the dominance of and provide some competition for Amazon. In addition to challenging the E-readers, Jobs and Co. are looking to take a chunk out of the netbook industry. Apple had previously stayed away from this industry because Steve Jobs did not want to make an inferior product to compete with other netbooks. The CEO now has his ammunition to combat these low-cost machines. The best thing about the iPad though is how it will just add onto the already fantastic fundamental story that Apple has going. After reporting its most recent quarter, Apple is priced at a very conservative price that is poised to appreciate in the coming year.

As of February 2, 2010, Apple Inc. only trades at 19.1 X earnings. Given that Apple just restated its financials for the past few years, due to a revenue recognition accounting procedure change; it is understandable that people have to recalculate the valuation on the company. A conservative estimate of Apple’s 2010 full year earnings at $12.50, paired along with a P/E of 20, puts the stock price at $250. This estimate is a bit lower from many other price targets on the company, which range up all the way to $300. 2009 was a great year for Apple, but the coming year may be even better for one of the most innovative companies in the world.
High-Yielding Prospective Stocks
By: Greg Herman

**AT&T (T) 6.55%**
After viewing its higher yielding counterparts, American Telephone and Telegraph proves to be a much safer and secure buy than Israel Telecom or Verizon Wireless. Israel Telecom cuts it very close to being able to cover its payout ratio and has a total debt-to-equity ratio of over 10! In sharp contrast, the American stalwarts T and VZ have much better fundamentals. Both stocks have recently retreated nicely from their 52 week highs to create a great spot to initiate a new position. When comparing the two directly together, I believe that T is definitely the stock of choice. Currently, T is yielding 6.54% compared to VZ’s 6.39%. Additionally, both companies have net profit margins around 10%. However, excluding extraordinary items, VZ trades at 23.1 X earnings, while T trades at only 12.1 X earnings. T’s total debt to equity ratio is .71 compared to VZ’s 1.5. AT&T is a smart buy at this level and will redeem its holder’s with a great dividend and consistent capital appreciation.

**Altria Group Inc. (MO) 6.82%**
MO is a holding company that wholly owns its subsidiaries Philip Morris USA Inc. and John Middleton Co. The company currently trades at 12.8 X earnings. The company produces a positive operating cash flow every quarter and has a payout ratio that currently stands at 84. The company has some debt, but this debt is under control and the company can handle this load because of its relatively high margins. The company’s gross profit margin is 37.5%, while its net profit margin is 13.6%. Altria looks like a great company to add to your portfolio to provide some great dividend income.

**Enerplus Resource Fund (ERF) 9.07%**
Enerplus Resources own interest in crude oil and natural gas properties and collects royalties from its three subsidiaries. The company managed to make money in all but one quarter, even with the significant drop in crude oil and natural gas prices. The company currently trades at 14.2 X earnings. Unlike other companies, ERF pays out monthly cash distributions to its shareholders. The company will benefit from higher average prices of crude oil and natural gas in the coming months. One great characteristic about this company is that it has a current ratio of .66 and a total debt to equity ratio of only .13, which is fabulous for companies in this industry.

**MFA Financial Inc. (MFA) 14.59%**
MFA invests into MBS’s using leverage. Excluding extraordinary items, the company only trades at 6.4 X earnings. The company’s total debt to equity ratio is 3.42, which is not terribly high for a company in this business. Additionally, the company’s payout ratio is pretty high at 93.80, but this because the company pays a fat dividend. The company holds $1.74 per share in cash, which is fabulous for a stock trading at $7.41. Also, the company’s statement of cash flows shows that the company is making money from operations, which means it’s able to produce a reliable revenue stream.

**Chimera Investment Corp (CIM) 16.55%**
CIM is a specialty finance company that specializes in residential mortgage-backed securities and residential real estate. At the peak of the market in 2007, the company
traded all the way up to $20. Currently the company trades right around $4 per share and only at 7.9 X earnings. The most amazing thing however, is that CIM has a real dividend yield that is 16.55%! This is not a fake number either, as the fundamentals page shows a payout ratio of only 57. The company just paid a dividend on January 29 and its financials look in line. As part of a diversified high-yielding portfolio, CIM looks like it could be a great fit.

**Trouble in Greece**

By: Alex Pachman

Over the past few months financial news has been littered with reports about Greece’s deficit problems. A recent report by Credit Market Analysis (CMA), a London-based technology vendor that provides credit derivatives market data to fund managers, put the likelihood of Greece defaulting on their debt within the next five years at 17.4%. This is slightly below that of Dubai (25.1%). Recently, the European Union endorsed Greece’s 3-year plan to reduce its deficit from 12.7% of GDP to an acceptable level of 2.8%. In response, credit-default swaps on Greek government bonds dropped, signaling improved investor sentiment; however Greece is not out of the water just yet.

A closer examination of political factors is required to understand the influence that Greece’s deficit problems hold over the financial markets. These factors include Greece’s dubious financial reporting, potential political unrest, and systemic risk across other troubled sovereigns.

A primary concern over Greece’s inflated deficit is the record of statistical reporting errors. Incompetence, coupled with broad based corruption, has created a highly uncertain economic environment. This problem has persisted since Greece’s inception into the eurozone in 2001. Though these errors have gone seemingly unpunished in the past, it is uncertain as to what will happen if these errors persist under Greece’s recently elected Prime Minister George Papandreou. According to the European Commission’s January report on Greek government deficit and debt statistics, “unless the institutional weaknesses identified in this report are addressed and proper checks and balances introduced, the reliability of Greek deficit and debt data will remain in question”. Greece has made a habit of misreporting statistical data to the Eurostat over the past decade and seems to be the only Member State to demonstrate any difficulty reporting statistical data. The report is sure to highlight the point that that this issue is not “systemic”.

The use of the word “systemic” is no accident, as EU officials hope to extinguish fears that a Greek default would lead to other nations (Portugal, Ireland, Italy and Spain) following suit. This fear of a systematic collapse has been evident since Dubai’s credit problems first came to the forefront of the media’s attention. While Abu Dhabi came to Dubai’s rescue, a Greek default could trigger a bailout by euro zone governments and the Commission. Though this may be the case if Greece were to default, nobody knows for sure what the ultimate consequences may be. While President of the European Central Bank (ECB) Jean-Claude Trichet remains adamantly that Greece will remain part of the euro zone,
others do not find the though as outlandish so long as the country’s deficit exceeds 3% of GDP

Desmond Lachem, known for publishing bold views, believes that Greece’s departure from the euro zone is inevitable. As evidence Lachem cites Greek wage cuts leading to potential deflation, and further, an unsustainable budget deficit paired with “inappropriately low interest rates” that are not going anywhere as long as the US rates remain fixed (The EU would not want to raise interest rates before the Fed as it would hurt exports to the US). According to Pandreou’s 3-year plan, $14 billion in revenue will be raised by the government this year via taxing the wealthy, freezing state workers’ wages, and raising excise taxes on fuel, tobacco, and alcohol. Some of these initiatives directly contradict Pandreou’s election platform, making social unrest a real possibility.

In a Feb 2nd interview George Pandreou states, “We [Greece] are the weak link in the euro zone. We must act immediately and decisively.” These statements were part of an effort to inspire the population to stomach his 3-year plan. In response to the plan, the Greek civil servant’s union ADEDY called for a one-day strike for February 10th. This occurred despite Pandreou insisting that Greece couldn’t afford strikes and blockades.

Though response to the EU’s backing of Pandreou’s 3-year plan has been very positive, the yield curve between 1-year Greek and German bonds remains at an exceptionally wide. There is a high risk associated with Greece’s debt and the debt of a number of euro zone Member States. This environment is highly dangerous for the Euro in a financial world where perception has a tendency to become reality. If you are of the opinion that Greece’s problems will persist, one simple way to capitalize is to go short the Euro versus the US Dollar. These problems could surface in the form of continued statistical reporting errors, or social unrest stemming from Greece’s attempts to reduce their deficit in the midst of a recession.

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