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Subject: China fintech - game on - buy BABA mandatory convert preferred

Date: Mon, 10 Jul 2017 13:52:55 +0000

Attachments: Fintech.pdf

Inline-Images: image002.jpg; image003.gif

Jeffrey, Rich,

Attaching a report about China fintech and the impact of Tencent/BABA on Chinese consumption habits and banks. Implies that BABA and Tencent could become the largest tech stocks globally over time.

I know you own Tencent already. BABA has a mandatory convertible preferred (BABA MNXCZ 5.75% 6/3/19) that has a 3.5% yield and equity participation. It's very liquid (\$6.6bn notional outstanding) and the structure trades cheap.

Regards,
Amanda



S&P EARNINGS: EXPECT 2% Q2 BEAT. CAUTIOUS 2H OUTLOOK. BELOW CONSENSUS 4Q.

Earnings start next week with 7% of S&P reporting. Consensus S&P estimates only cut 2% heading into earnings vs typical 4%. We forecast \$32.00 for 2Q EPS implying +8% YoY growth & 2% beat vs. consensus at \$31.46. Industrials ONLY sector for which 2Q EPS expectations have been revised up while Energy has seen the biggest cuts. After record corporate optimism in 4Q16 and 1Q17 following the election we are cautious as corporates could temper their tone in 2Q given growing uncertainty around growth and tax reform/stimulus. While we expect a beat vs. consensus in 2Q forecasts continue to look overly optimistic for the 2H, particularly in 4Q = BAML at \$33.10 vs cons \$35.40. What to own into 2Q earnings? Industrials, Health Care and Tech screen well. However, positive expectations for Industrials may already be reflected in valuations & positioning in Tech may be an overhang to upside despite solid underlying fundamentals. Telecom, Utilities and Energy, screen as least attractive. BAML estimated \$129 for 2017 vs cons at \$131.50. [Note.](#)

ACTIVE MANAGERS: FEES RATES DRIVE Q2 UPSIDE SURPRISES. BLACKROCK \$500+ BLUE SKY.

Complimentary work on ACTIVE vs PASSIVE debate. *Catalyst for ACTIVE:* Fee rates could potentially lend Q2 EPS surprise for traditional asset managers (Franklin, BlackRock, Invesco) = see pages 12-13. *Alternative Asset Managers:* fund returns *continue to beat expectation*; Economic Net Income likely to drive Q2 beats (Aries, Carlyle, KKR) + fundraising strength additional driver (Apollo, Carlyle, Blackstone) = see separate preview note, page 20. PASSIVE vs ACTIVE. Globally, 26% of AUM is passive / 37% in US. *Expect double-digit growth in passive next few years.* BLACKROCK primary beneficiary. 20% premium to group well-deserved. 7% organic growth vs group 0%. BASE CASE: we forecast 4% go-forward organic growth + 10% EPS growth. BLUE-SKY: current passive trends persist + International exposure near-term fee tailwinds + operating leverage = drive 15% EPS growth. 20x multiple warranted? \$500= stock price. [Note.](#)

FUTURE OF GROCERY: Call with Former AMAZON Exec responsible for AMZN Fresh, last mile delivery, etc. Friday @ 9am est. [Note.](#)

CELGENE: BUY. BLUESKY = \$200? LUSPATERCEPT ANALYSIS. PHASE 3 MID 2018.

Ying lays out blue Sky to \$200 assuming all Phase 3 drugs work = 18x 2022 EPS discounted back by 10%. Trading now at 15x 18 consensus EPS = *lower than S&P.* Combined peak sales of late-stage assets

(luspatercept, ozanimod, GED301) = \$8.6bn if all successful in 2018. Ying's report analyzes luspatercept asset. Phase 3 results mid-2018. Demonstrating reduction of transfusion dependence in both myelodysplastic syndromes (MDS) and β -thalassemia. Phase 2 showing transfusion independence rate of 30-40% in ESA-refractory MDS patients is clinically relevant and achievable in MEDALIST Phase 3. See Exhibit 10 for increase in mean Hgb post dosage. \$1.8B peak sales in model assuming 25-30% peak penetration, \$78K annual cost & 77% FDA approval probability. [Note](#).

SHIPPER SURVEY: HIGHEST LEVEL SINCE 2014 PEAK. RAISE POs FOR TRUCKLOAD STOCKS.

Ken Hoexter's proprietary bi-weekly indicator at 66.9, +26% YoY, and 6% from last survey at 63.2. Seasonally at the highest level since peak in 2014. Historically good real time indicator for shippers' sentiment & outlook. Shippers' short term (0-3mo) positive outlooks increased significantly to 57% of total responses, from 38% last survey. 54% of shippers expect rate increases, up from 32%. 46% expect to be flat, down from 59%. 0% expect rates to fall, down from 9%. 35% of shippers expect capacity to fall, up from 24%. Ken raises PO's across TL's (to/from): SNDR to \$25/\$23, JBHT to \$109/\$98, KNX to \$43/\$41, SWFT to \$31/\$29, WERN to \$30/\$25 & reduces target multiples 1-1.5x for SNDR, JBHT, and WERN as move to 18E EPS. Ken's target multiples actually decrease 1-1.5x for SNDR, JBHT, and WERN as he moves closer to top of historical trading ranges from above range on trough earnings. The data supports tightening truckload supply despite recent mixed macro data, and could be a good indicator for strong EPS growth for the group in 18e. [Note](#).

CHINA FINTECH: Mobile payment users have doubled in past 2 years. TENCENT + ALIBABA dominate market. Deep-dive. [Note](#).

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