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Financial Newsletter

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Foreword

After a most unconventional year, marked by a global pandemic and its consequent economic instability, the stakes were high for 2021 to be a year of recovery. The approval of several COVID-19 vaccines later last year and the unprecedented pace and scale at which they began to be administered, surely contributed for said optimism.

However, along with new variants came another wave which made European countries reinstate severe preventive measures. As a consequence, firms and families were once again thrown in a situation propense to financial distress, which has seen and led to more situations of lower compliance of the rules – at least when compared with the previous months.

Nevertheless, recent forecasts from the IMF reassured the initial optimism by issuing a more positive forecast for this year's global economic growth. Additionally, inflation in Europe left the negative terrain, having achieved a modest positive value. These and other economic and financial figures are explored in our 21st Financial Newsletter, the first in this new decade.

Moreover, we bring the stock of Taiwan Semiconductors Manufacturing Company which besides being the world's leader in its sector has recently commenced hiring workers for its new American plant. On the subject of health, we also analysed one of the most important M&A's deals in past

months with the acquisition of Change Healthcare by the UnitedHealth Group.

Ultimately, on the last section of this financial newsletter, we cover the latest and most notorious example of market buzz by deconstructing the GameStop event that happened this January and February.

Have nice readings and bold investments,

Carolina Marques, *Editor-in-Chief*

Gonçalo Mendes Pereira, *Editor-in-Chief*

Macroeconomic Overview



Duarte Oliveira
Research Department

In the beginning of 2019, we were seeing the rapid expansion of COVID-19 throughout the globe. Exactly one year later, we are seeing the scars left by the pandemic on both public health, and the economy.

Turning our eyes to the Portuguese economy, the Public Finance Council (CFP) estimated that Portugal's GDP had a drop of 7.6% 2020. Nonetheless, the OECD projects an increase of 1.7% in 2021 and 1.9% in 2022. One important point to bear mind is the high share that tourism has in the Portuguese GDP, which is expected to mute the speed of recovery at least until normality is restored.

Regarding unemployment, after the first peak, the rates have slowly declined mainly derived from the fiscal measures implemented. Since September, the labour force rates have dropped every month. However, the forecasts show an increase on the unemployment rates, mainly due to the restrictive measures implemented in the last months. According to CFP, unemployment rates were 8.1%, 8% and 7.3%, in the months of October, November and December, respectively. However, in February it is forecasted to reach 8.6%, according to Trading Economics.

In Europe, the GDP is projected to rebound from -7.3% in 2020 to 3.9% in 2021 and 4.2% in 2022. Germany for instance, is expected to have a fast recovery, due to the higher foreign demand for its exports from the main destinations - China, Eurozone, and the U.S. - which could

potentially put the economy on tracks.

Moving on to the U.S., the current social environment is still unstable. Eleven million workers still remain unemployed and around four million have been unemployed for six months or longer. Regarding its GDP, after the outstanding recovery of 33.1% in the third quarter, it is expected to increase by 4% in the fourth quarter of this year.

Taking a look at the imports and exports, according to the BLS, in the month of January, the imports have increased by 1.4% in while the exports increased by 2.5%, following advances of 1.3% and 0.7% in the two previous months.

In the Asian region, China comes off as the only major economy with positive growth in 2020. In fact, the GDP in the region, excluding China, contracted by 4.3%. With major boosts from public investment, there was a quick and sustained resumption of production of exports. A GDP growth of 7.4% is projected concerning surrounding countries, where China comes out as the leading economy.

According to the World Bank, East Asia and Pacific are expected to expand 7.4% in 2021, after the drop of 0.9% in 2020, which a level still around 3% below pre-pandemic forecasts. All these projections are mainly based on the government aid provided by stimulus packages, which have the potential to stabilize the economy.

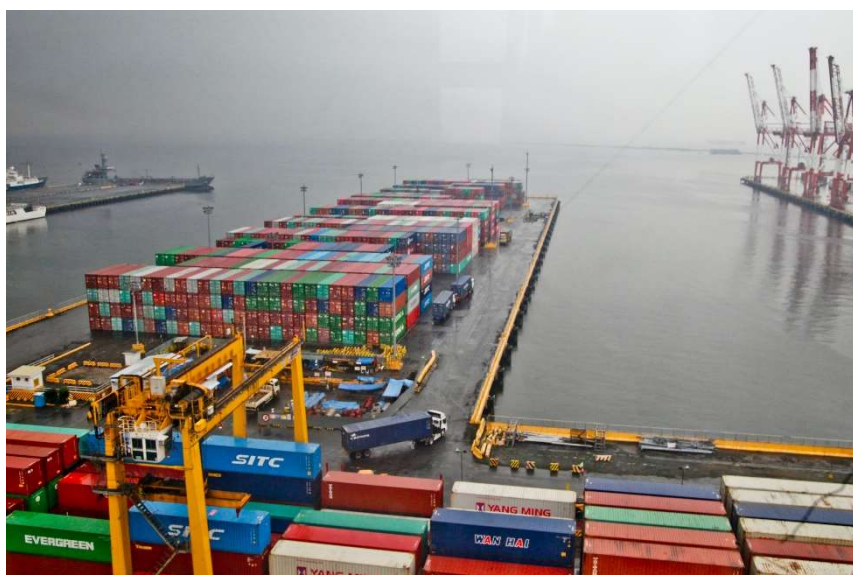
When it comes to Africa, after the projected decline of 3.3% in 2020 – confirming the region's first recession in twenty years – the World Bank forecasted that its economy is expected to rebound only moderately by 2.7% in 2021. The recovery in private consumption and investment is forecasted to be slower than initially projected, and the export growth is only expected to accelerate in combination with the most relevant trading partners.

A major problem affecting the continent is the inevitable rise of the debts of some African countries. According to the Africa Report, several analysts have begun sounding the alarm regarding the high values of government debt-to-GDP ratio in countries such as Zambia, Angola and the Republic of Congo, with values of 120%, 120.3% and 104.5%, respectively.

Regarding the Latin America and the Caribbean region, it was forecasted to have experienced a shrinkage of -7.7% in 2020. Nonetheless, for the current

year it is expected a recovery, with estimations projecting a growth of 3.7%. In addition, according to projections released by the United Nations, South America has seen a contraction of -7,3% in the previous year, and is expected to grow by 3,7% as well in the course of 2021.

Sources: BEA, Bloomberg, BLS, CFP, Conference Board, OECD, The Africa Report, Trading Economics, UN, World Bank



Source: Jerome Monta/Unsplash

Economic Calendar



Ricardo Pino
Research Department

Economic Outlook

According to the Eurostat's flash estimate published, the evolution of the GDP for the EU in the last quarter of 2020 was worse than the previous quarter by having decreased 0.5%. This decrease was largely explained by the new measures and restrictions imposed by the governments to contain another wave of COVID-19. For Portugal, the European Commission forecasts shows that the Portuguese economy decreased 7.6% in 2020 but is expected to grow 4.1% in 2021.

The U.S. economy developed at a 4.1% speed in the last three months of 2020, marginally faster than the first assessed. According to the Federal Reserve Chair, Jerome Powell, the country's economy is expected to grow around 6% in 2021, as it recovers from the pandemic, and it is forecasted to reach the pre-pandemic level by the end of this semester. Furthermore, Goldman Sachs forecasted that the U.S. GDP is expected to grow 6.8% this year 2021 - 0.2% higher than their past estimate.

OECD's economic outlook, released at the end 2020 argued that "vaccination campaigns, concerted health policies and government financial support" are expected to have a significant impact in the global GDP of 4.2% in 2021 after a decrease of

4.2% in 2020. However, it supports the idea that the recovery would be faster if the vaccination programmes were more efficient.

Inflation

As reported by Eurostat, the annual inflation in the Euro area in January was 0.9% which represents a considerable growth when compared to December's value of -0.3%. This was due to the evolution of the food, alcohol and tobacco segments, which were registered at 1.5%, representing an increase of 0.2 percentage points from the previous month, but were counterbalanced by the decrease of -4.1% in the energy segment. For the month of February, the value for the annual inflation remained at 0.9%.

In Portugal however, the inflation rate registered was much lower at 0.3%, but still the first positive value in around 5 months. Nevertheless, if the forecast value of 0.5% for February proves to be true, it would be the most elevated expansion rate since January of 2020.

Furthermore, in the U.S. the inflation rate remained stagnant, registering in January the same value of 1.4% as the previous month, yet the Consumer Price Index rose 0.3% MoM and 1.4% YoY. This rise was for the most

part a consequence of the upward trend in the used cars and trucks (10%), utility gas service (4.3%) and food prices (3.8%) segments, compensated by the fall in the energy cost (-3.6%) and apparel prices (-2.5%).

Labour Market

According to Eurostat, the seasonally adjusted unemployment rate in the Euro Area and the European Union were stable in December of 2020 when compared to November, being respectively 8.3% and 7.5%. This means that 16 million individuals in the European Union of whom 13.671 million in the eurozone, were in a situation of unemployment in December 2020.

In Portugal, the unemployment rate dropped to 7.1% in the final quarter of 2020 and ended the full year with a rate of 6.8%, which is below all the previous estimates but still 0.3% above the preceding year.

In the United States of America, in January, the unemployment rate decreased to 6.3% translating to 10.1 million unemployed Americans. This decrease in the labour market reflects the efforts being made to contain the virus. In this period, it is possible to see a job growth in professional and business services and in education but a decrease in some other segments, namely, retail trade, leisure and hospitality, health care and transportation and logistics.

Central Bank's Decisions

The European Central Bank (ECB) decided to maintain the previous year's practices, those being the continuation of the asset purchase programme, which has a volume of €20 billion per month and the decision to keep the interest rate on the main financing operations, marginal lending facility and on the deposit facility unaltered. However, it is also considering not using the pandemic bond-buying programme completely in case governments and companies can be funded in appropriate conditions, meaning that there could be a constriction of the stimulus approaching.

In the January meeting, the Federal Reserve (FED) decided to keep the interest rates anchored near zero and maintain the \$120 billion monthly asset purchasing program until there are signs of economic recovery. The next decisions rely on the evolution of the vaccination programme and its long-awaited benefits on the country's economy.

Sources: BEA, BLS, ECO, Eurostat, FED, INE, OECD, ONS, Trading Economics, Yahoo Finance

Financial Markets



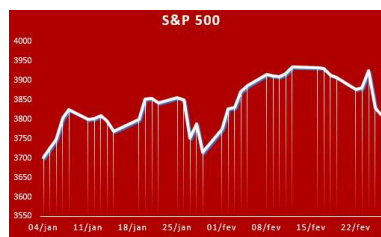
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Indexes

S&P 500



The S&P500 started the year opening at \$3,764.61, on January 4th, down from the previous close of \$3,756.07 on the last day of 2020.

Most of January was marked by an uptrend, especially from the first trading week of the month, where the index surged approximately 3.24%. From the 8th to the 15th, there was a correction, although it rebounded to a new maximum of \$3,855.36 on the 25th. However, the last trading days of January erased the previous gains, dropping to the lowest value in the year.

This sharp sell-off in the last week of the month prompted the index to close 1% lower, with healthcare being the main sector to uplift it and the industrials and consumer staples sectors being the ones weighing it down.

February showed an uptrend at first, opening at \$3,778.05 and gaining momentum to reach its all-time high of \$3,934.83 on the 12th. This was mainly due the

news that the vaccines were efficient against the new variants of the virus.

However, this month replicated January's trend, starting to trade lower by the end of the month. Not even the comparatively decline in COVID-19 cases in the US stopped this correction from happening. Worries of inflation and concerns about rising yields on the debt market were the prime reasons for this, which made the 25th be the worst day of February for stocks. This 2.45% loss in a single day was felt throughout the eleven sectors of the S&P 500, with consumer discretionary and the tech segments falling more than 3%. High growth stocks were the ones that felt this market correction the most as they are more price-sensitive to rising inflation. Due to this two-month mixed feelings about the evolution of the markets, the index closed at \$3,811.15, making up for a year-to-date gain of approximately 1.95%.

Top winners: Discovery Inc. (73.13%); Marathon Oil Corporation (62.52%); Occidental Petroleum Corporation (52.49%). Top losers: Verisk Analytics Inc (-19.24%); TechnipFMC Plc (-16.46%); Newmont Corporation (-13.89%)

Sources: CNBC, IMF, Investing, MarketWatch, S&P Global, Yahoo Finance

NASDAQ Composite



Throughout the first month of the year, the index did not account any major losses, registering a gain of 2.9%. It started January at \$12,958.447 and continued to climb to \$13,635.992 on the 25th, reaching its monthly high on this exact same day. From the 26th to the end of the month, there was not much positivity, with the index closing at \$13,070.695. This drop was not sufficient to erase all of January gains, with the index closing the month 0.29% above its first opening.

On the other hand, February, being a promising month for the market, reflected itself upon the NASDAQ Composite. It opened at \$13,226.178, and it began climbing all the way up to \$14,095.474 on the 12th. From the 13th to the end of February, there was a correction, which made it close at a lower value than the beginning of the month. This appearing to-be short-term downtrend could be explained as an indicator that investors feared that the index was over-valued now. This sharp sell-off almost erased all the month's gains, with the 25th being the worst day, plunging 3.52%.

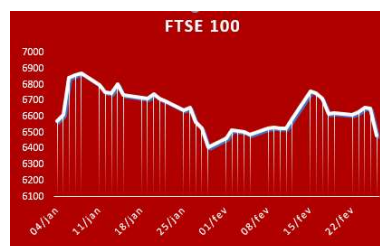
These two months made the index close 1.6% higher, with

some of the biggest results being the evolution of inflation, the impact of the bond market, and the economic recovery dependent on the pandemic situation.

Top winners: Moderna Inc (38.56%); Applied Materials Inc (36.05%); Baidu Inc (30.75%). Top losers: Verisk Analytics Inc (-19.24%); Peloton Interactive Inc (-17.46%); Check Point Software Technologies Ltd (-15.12%)

Sources: CNBC, Investing, MarketWatch, Reuters

FTSE 100



The British index started the year on a positive note, opening at £6,460.52 and climbing to an 11-month high of £6,873.26 on the 8th of January. This rally was mainly due to the positive outlook for global growth and vaccination processes starting to develop at a faster rate.

After reaching that high, the performance began inverting its course, forming a constant downtrend. The surge in COVID-19 cases and the faster-spreading UK variant made investors less enthusiastic about the economic growth, reflecting this on the UK stock market. Due to this, the index kept the downward trend until the end of the month, hitting this year's bottom at

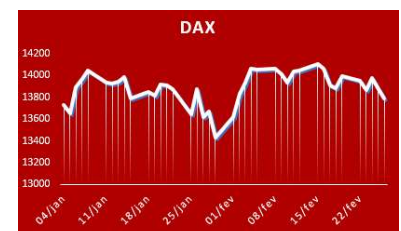
£6,407.46, making the total returns of January being approximately -0.82%.

February started with an uptrend, opening at £6,407.46 and climbing to £6,756.11 in the first half of the month. After reaching its highest monthly point, on the 15th, it inverted the trend, making the index edge lower. Inflation figures in the UK were one of the concerns for investors, as they had a sudden jump from the expected values. From the 17th to the 26th, the index remained stable with little to no up or down movements being recorded. Although lower from the monthly high and not showing more uptrends in February, the index still made itself close higher than the beginning of the month, at £6,483.43. These two months of made the FTSE 100 gain a small percentage of 0.5%.

Top winners: Johnson Matthey (25.98%); Glencore (24.76%); Antofagasta (23.74%). Top losers: Fresnillo (-19.43%); Experian (-18.15%); Unilever (-15.00%)

Sources: CNBC, Investing, London Stock Exchange, MarketWatch

DAX



This index began the year at €13,890.22, down from the last

day of 2020. Unlike other European indexes, it did not start rising at a faster pace, with a small correction being seen the day after. It then climbed its way into its maximum for January on the 8th, at €14,049.53. From this day until the end of the month, the index kept going downwards reaching the year-to-date lowest point on the last day trading of January, closing at €13,432.87.

February began with optimism, with a sharp rise in the first four days of the month, erasing January's losses and reaching a closing price of €14,060.29. The following days showed some stability with prices ranging from €13,864 to €14,109.48, which was the month's highest point, attained on the 15th. This was mainly affected by the earnings season. This relative price stability ended on the 25th, with the index following the global trend and falling to €13,786.29, with US bond yields serving as a catalyst for the drop. However, it did not suffer as much when compared to US indexes. The index closed at €13,786.29 making up a small gain of 0.44% for these two first months of 2021.

Top winners: Covestro (18.78%); Infineon (14.59%); Daimler (14.48%). Top losers: Delivery hero (-16.77%); Fresenius Medical Care AG & CO (-15.97%); Beiersdorf (-13.31%)

Sources: BMWi, Investing, MarketWatch

PSI 20



The Portuguese index began January opening at €4,953.38 and climbing to €5,282.02 on the 7th, which was the highest value recorded since February 2020. This positive momentum was felt throughout Europe, with the PSI 20 being no exception. The days after this positive climb showed there was contradictory movement in the index when compared to the global outlook, registering the biggest index fall in Europe on the 11th of January. Moreover, the remainder of the month was marked predominantly by a downtrend, closing the month at €4,794.55. This was mainly fuelled by the pandemic evolution in Portugal whose negative sentiment was felt upon the index's price evolution. Thus, the end of the month had a new minimum since last December. Additionally, the index's returns for the first month of 2021 were negative, accounting for a loss of 2.1%.

February started with a downtrend, opening at €4,815. The indexes chart showed itself relatively stable from the month's opening to the 10th, closing at €4,821.97. From the 11th on, the index suffered another decline. In the second half of the month, the index soared on the first day

of the week, with above-average volatility in the market. Galp's shares soared 5,10% making up a catalyst for this positive day on the index's returns. The month ended with the index closing at €4,702.19, making the year-to-date returns negative.

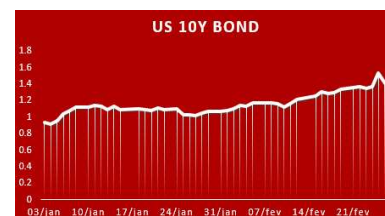
Top winners: Semapa (32.22%); Altri (17.05%); Novabase (16.51%).

Top losers: EDP Renováveis (-20.61%); EDP Energias de Portugal SA (-7.87%); Jerónimo Martins SGPS SA (-7.02%)

Sources: CNBC, Euronext, Investing, Millennium Investment Banking, Reuters

Fixed Income

US 10Y Bond



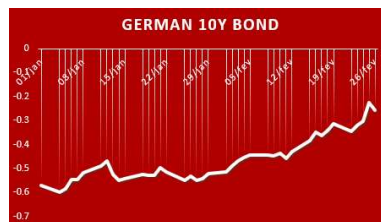
Opening at 0.917%, the US 10Y Bond showed strength through the first trading week of the month, reaching 1.145% on January 11th. The following days were marked by a slight correction, due to the investors' concerns about the stimulus plans and the coronavirus pandemic. It rose slightly on the 26th closing flat, as the Former Federal Reserve Chair Janet Yellen was confirmed as Treasury secretary. Nonetheless, the month closed at 1.064%, making up to

a 0.147% increased yield compared to the beginning of the year. Better than expected US GDP and weekly data for jobless benefits made the bond edge higher at the end of the month.

The first trading day of February was marked by a slight decrease in its yield; however, it then reversed and started an uptrend from this moment on. Better than expected jobs data and unemployment rates dipping caused the U.S. 10Y Bond yield to rise, as investors were looking forward to more certainty in the economy. On the 9th of February, there was a flattening of the graph's curve, mainly due to the assessment made by investors on the progress on the stimulus bills. On the 10th it also started trading lower, with the start of inflation-related concerns. On the day after, the market began to move the yield higher with jobless claims data serving as a catalyst. From this moment until the end of the month, the U.S. 10 Year kept going up with a great momentum, causing it to reach values above the 1.60% mark. This high was the yield's highest recorded value since February 14th, 2020. Nonetheless, investors reacted on a negative note to this, fearing this continuous uptrend could be driven by inflation rather than economic recovery. These two months' evolution made the treasury yield rise from below the 1% yield to 1.423%, with most of it being seen towards the end of February.

Sources: CNBC, Investing, MarketWatch

German 10Y Bond



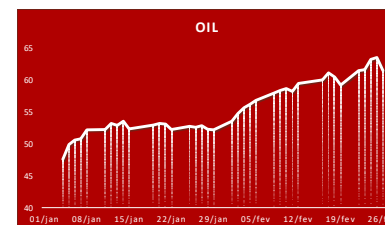
The German 10Y government bond started 2021 opening at -0.5710%. The first days of the year were marked by their positive momentum, surging up to a close of -0.4690% on the 12th. From this very day to the end of the month the *Bund* started trading lower, touching its formed resistance near the -0.55% mark.

February opened with a lot of momentum, continuing throughout the month, reaching new all-time highs since July 2020. The bond finished February closer to the 0% mark than it previously opened, closing at -0.259%. This continuous uptrend appeared to have economic growth priced in, as well as inflation numbers and their future evolution in this uncertainty. From year-to-date this bond increased its yield by 31.2 basis points.

Sources: CNBC, MarketWatch, Trading Economics, WSJ

Commodities

Oil



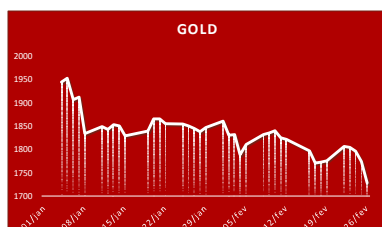
West Texas Intermediate Crude Oil began the month of January with a quotation of \$48.40 per barrel and experienced a sharp growth of around 10% during the first week of the month, which closed at \$52.24. During the following weeks, the quotation presented a horizontal trend, fluctuating between the \$51 and \$54 price range, mainly motivated by the deep production and supply cuts announced by OPEC, the stimulus policies and vaccination rollouts in the US, along with some uncertainty deriving from the South African COVID-19 variant and possible consequences of the Chinese Lunar New Year in oil demand. The highest closing value was observed on the 14th with \$53.57, with the month ending at \$52.20 per barrel.

February, on the other hand, saw a rapid rise in the quotations, opening at a value of \$51.99 a barrel. Until the 17th, the prices rose at a steady pace, reaching a value of \$61.14, followed by a decline until the 19th, which closed at \$59.24, but soon rebounded in the following days, achieving its highest value since the end of 2019, with a quotation

of \$63.53 per barrel, on the 25th. These historical rises were mostly brought by broader market strength and optimism over demand recovering during the year of 2021, as a consequence of the COVID-19 vaccine deployment and massive fiscal spending expected by the Biden administration, allied with the reflation trades to more cyclical sectors, which were being supported by the rising yields. Moreover, the devastating frigid Arctic Blast, in the middle of the month, that threatened the U.S. played a big part in sending the prices to yearly highs, since oil pipelines and major refineries were forced to shut down their operations, cutting a considerable portion of the global supply and inventories.

Sources: Bloomberg, Oil Price, Yahoo Finance

Gold



Followed by a bullish December, January opened with a price of \$1,912.20, reaching its peak on the 5th with a value of \$1,952.70. It then suffered a deep decline on the 8th to a close of \$1,834.10. As for the rest of the month, there's a sideways trend with the values hovering around the \$1,830.00 and 1,885.00 price range and closing the

month with a quotation of \$1,847.30.

February opened at \$1,866.60 and closed at its \$1,860.80 peak on the same day. It then experienced some volatility, with a downward trend, and, from the 22nd onwards, COMEX Gold had a steep decline, closing the month at \$1,728.10 and marking one of the worst-performing months since late 2016. In total, COMEX Gold is down more than 8% year-to-date, being the worst start of the year since 1991, according to Bloomberg. Even though the market is expecting higher inflation for the foreseeable future, higher yields and a slightly stronger dollar, associated with the expectations of an improving economy and the US stimulus plan, have increased the opportunity cost of holding non-yielding gold, thus pressuring its price down. Furthermore, with the FED stating that monetary policy would remain unchanged until the economy gets back to full employment, there was a boost in the demand for raw materials while further reducing the appeal of gold. However, some analysts see the prospect that gold could make a comeback in the medium to long term, betting on the inability of governments and central banks to normalize stimulus policy and a spike in inflation.

Sources: Bloomberg, CNBC, Reuters, Yahoo Finance

Forex

EUR/USD



The EUR/USD started January at 1.2173 and soon after rose to a peak of 1.2341, on the 7th. It then maintained above 1.22 until the 8th, a mark that was only surpassed in mid-December for the first time since April 2018. Factors such as the US interest rate at low records, the significant US deficits and the belief of rebounding world trade will push non-dollar currencies higher. This, allied with positive economic indicators in Europe, contributed to the Euro's strength and the Dollar's weakness in the first days of the new year. From then onwards, the dollar showed positive evidence with a steep decline to 1.2068 on the 18th of January, being the lowest point of the month, and closing the month at a slightly higher price with a value of 1.2120.

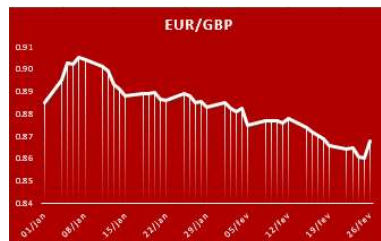
Additionally, the manufacturing PMI in the Eurozone fell from 55.2 to 54.8 - 0.1 above the forecasted value - while the U.S. forecasted a manufacturing PMI of 60.0 and had a bigger decrease from 60.7 to 59.2. As

Democrats gained control of the US Senate, prospects of a clearer path for a larger fiscal stimulus pack that would allow the US economy to have a bigger rebound in the upcoming quarters and the fact that investors who had been betting on the euro took their profits, helped to push the dollar up.

In February, the pair started at 1.2123, followed by a fall to 1.1967 on the 5th, the lowest value of the month, and, for the rest of the month, it showed a growing tendency, unlike January, with a small setback from the 16th to the 18th, closing the month at 1.2160, which is a value somewhat similar to its opening. Regarding the manufacturing PMI, the Eurozone forecast was pointing to 54.3 and it managed to increase to 57.7 - from last month's value of 54.8 - and the U.S. edged down to 58.5, matching expectations. This dollar retreat can be explained by the market's sentiment that the government will provide higher than necessary aid to support the economy and end up with too much inflation and debt, pushing the dollar value further down. Furthermore, the poor situation in the US job market, the fast rise of the 10-year Treasury notes, the reflation trades and some uncertainty "on whether the U.S. economy really will be able to achieve a stronger post-lockdown boom than Europe" remain as important factors to the observed movements in the EUR/USD pair currency.

Sources: Reuters, Yahoo Finance

EUR/GBP



The EUR/GBP exchange rate began January at 0.8842, reaching its peak on the 7th with a value of 0.9056. From then forth, it started to signal a descending trend, closing the month at 0.8831. In February, the opening rate marked 0.8849 and it followed the downward pace started in January, besides a stabilized period between the 5th and the 12th which fluctuated between 0.8750 and 0.8780. After this period, it continued to fall until the 25th which was its lowest value of 0.8602 since March of 2020, presenting clear evidence of a stronger pound, and closing the month at 0.8679. Altogether, the GBP has posted its longest winning streak in five and a half years.

The manufacturing PMI for this month in the UK fell from the three-year high of 57.5 in December to 54.1 after a preliminary reading pointing to 52.9 and, for the month of February, it increased to 54.9, beating the 53.2 forecasted value.

The beginning of 2021 pointed to the end of Brexit's Transition Period and was followed by positive news for the Sterling Pound

after the UK's economy had been the most affected by the first pandemic wave. Being the first European nation to approve a COVID-19 vaccine, allied with a remarkable vaccine rollout speed, it gives a head start in re-opening its economy, meaning that it is expected to bounce back faster than the rest of Europe, especially when considering that the UK's economy is heavily domestic and service-focused. Additionally, the Bank of England has been avoiding jumping its interest rates into negative territory, as it's believed that it could drag down their economy. All in all, both investors and banks have been updating their forecasts for the EUR/GBP rate to favour the Sterling Pound, as they expect that in the near term it will solidify its position against the Euro.

Sources: Bloomberg, Reuters, Yahoo Finance

Investment Banking



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Stock Pitch:

Taiwan Semiconductor



Company Background

Taiwan Semiconductor Manufacturing Company (TSMC) is known as the largest semiconductor manufacturer in the world. Its business model is based on ensuring that they are not in direct competition with their customers.

As a result of this tactic, they can supply some of the biggest companies in the world such as Apple, Nvidia, Qualcomm, and AMD all at the same time. When it comes to semiconductor manufacturing, the company represents more than 50% of the total market. With a high focus on capital expenditure as well as innovation, they manage to maintain and increase their competitive position. In 2019 they were manufacturing 10,761 different products utilizing 272 distinct technologies while being used in a variety of different markets including mobile devices, high-

performance computing, automotive electronics as well as the Internet of Things (IoT).

Catalyst & Strengths

Recent supply shortages of semiconductors in several car makers around the globe are a clear signal of the transformation taking place. To compete with more tech-savvy companies such as Tesla, legacy brands are diving right in using more and more complex architecture chips. With the introduction of 5G technology and all the potential that it can bring - from autonomous vehicles to IoT - the semiconductors are the main component to making all this possible.

In this process, all devices need to have high processing capability, to use all the benefits the new technology provides. Thus, this is going to be the main driver for the semiconductor industry moving forward since most day-to-day appliances will be using some kind of semiconductor chip. With all these factors in mind, the forecasts aim for a growth of 8%, in the industry in 2021, and a Compound Annual Growth Rate (CAGR) of 10% from 2020 to 2026.

Furthermore, by 2024, TSMC is planning to have a new plant running in Arizona, USA. This move is made to ensure that

they will not be affected by the US-China trade war as well as being able to serve some of their US customers (especially Apple) more easily. With external demand and large spending on expenditures and innovation, TSMC is placing itself for large growth in the following years.

Risks

By relying on selling the goods without a brand, they are limiting their potential when it comes to margins. They need to compete with other manufacturers and most of the time this means a race to the bottom in terms of price, limiting the overall profit. As their business is very cyclical and overproduction happens sporadically, the future potential may not be realized as fast as the projections forecasted and thus the investment can take a lot more time to fully realize itself.

Additionally, this is a very difficult business to stay competitive in due to high levels of change and innovation. We can take the example of Intel to realize what may happen to a company that does not invest enough in R&D.

Their top 10 biggest clients account for 70% of their total revenues. While not the riskiest of the factors, it still requires some caution from investors. Since they are so reliant on their biggest customers, losing one of them can present some issues in the revenue department.

Valuation & Financials

By analysing the valuation & financials, it is noticeable the company is over-performing the market. Evaluating the ratios in the two different years, it is clear the Taiwan Semiconductor is following the direction of expansion.

With the same number of shares outstanding, the market capitalization has increased from 301 billion dollars to 547. This movement represents a boost of 82% counter to 23% of the Taiwan Index and 43% of NASDAQ Composite.

At the end of 2019, the Price to Earnings (P/E) was 26,94. Pursuing the movement in other ratios, in 2020, the P/E was at 33,32, with an increase of 24%. The average of this ratio in the semiconductor industry is 28.83 - below the values of this company.

The Return on Assets (ROA) for The Taiwan Semiconductor has increased from 15% in 2019 to 18% in 2020, which is above the industry average, in 2020, of 13%. Additionally, the Return on Equity (ROE) is following a similar path to the ROA, jumping from 22% in 2019 to 30% in 2020 - an increase of 34%. Aligned with the other indicators analysed, the ROE is higher than the industry average.

In terms of liquidity, Taiwan Semiconductor continues to grow: its Current Ratio has sharply increased 27%, from 1.39 to 1.77, as well as the Quick

Ratio that has increased 24%, finishing at 1.55 by the end of 2020. This ratio shows how healthy the company is in this period, being its current assets able to cover its current liabilities.

Looking over the Debt-to-Equity ratio (D/E), the company shows solid values. At the end of 2019, it was at 0.40 increasing 24% to 0.49 in 2020. The average in this industry was around 1 in 2020, which indicates the company is on a right path.

Regarding the stock price, it was at \$58.1 at the end of 2019 and finished 2020 at \$109.04. This disrupted movement translates into an 88% increase in the price, higher than the NASDAQ Composite that registered an increase of 40% in the same period. Currently, the stock price is now around \$137, however, forecasts have a median target of \$148.

Therefore, being the world's largest semiconductor foundry and with sales forecasts aiming to grow in two digits, the recommendation is to **HOLD** the stock of The Taiwan Semiconductor.

Sources: Finviz, Macrotrends, Pound Sterling Live, YCharts

In Dollars (\$)	31/12/2019	31/12/2020
Market Cap (in billions)	301.31	547.44
Shares Outstanding (in millions)	5186	5186
Last Price	58.1	109.04
Price to Earnings (P/E)	26.94	33.32
Earnings per Share (EPS)	2.28	3.39
Return on Investment (ROI)	22%	27%
Return of Assets (ROA)	15%	18%
Return of Equity (ROE)	22%	30%
Current Ratio	1.39	1.77
Quick Ratio	1.25	1.55
Debt/Equity (D/E)	0.40	0.49
EBIT (in millions)	12 466	19 258
EBIT Margin	35%	42%



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M&A Deal of the Month:

UnitedHealth Group & Change Healthcare

UNITEDHEALTH GROUP®

CHANGE
HEALTHCARE

On January 6th, the largest M&A deal so far this year was announced: UnitedHealth Group reported the acquisition of Change Healthcare for roughly \$13 billion – with \$5 billion covering Change Healthcare's debt. The deal, whose intention is to enhance the performance of healthcare technology services, was closed offering a price of \$25.75 per share to Change Healthcare shareholders, implying a 41% premium to the closing price on January 5th.

Companies' Overview

The UnitedHealth Group was founded in 1974 and as of 2020 it was managing a vast portfolio of over 50 subsidiaries. That same year, it was ranked seventh on the Fortune 500 of 2020,

reporting \$257 billion in revenues, reflecting a 6.2% growth compared to the same period of 2019, making it the second largest healthcare company by revenue. The company operates two business units: UnitedHealthcare which serves the markets for health benefits and Optum division responsible for optimizing care quality, reduce health benefits costs and improve consumer experience in the overall healthcare system. In fact, this second unit – which in 2020 accounted for 21% of the group's total revenues – was one of the main keys in this deal.

On the other hand, Change Healthcare is a healthcare IT company, founded in 2005, known for its financial and administrative services and for being a healthcare technology provider. According to its 2020 annual report, the company reported a total revenue of approximately \$3 billion. In terms of comparison with UnitedHealthcare revenues, this value represented 1% of UnitedHealthcare total revenues in 2020.

The Deal

With the agreement to buy Change Healthcare, Optum is now building a strategy to improve its ability to provide data analytics and revenue cycle management support. "This opportunity is about advancing connectivity and accelerating in-

novations and efficiencies essential to a simpler, more intelligent and adaptive health system," said Neil de Crescenzo, President and CEO of Change Healthcare, in a statement published in the press. In addition, one of Change Healthcare's main shareholders, Blackstone – which owns a 20% share –, voted in favour of the deal, thus selling its stake to UnitedHealth.

With both companies connected they are expected to simplify clinical, administrative and payment processes, with Change Healthcare bringing new technologies and connections to en-



Source: felixioncool/Pixabay

able better workflow and connectivity. This combination of resources is also expected to improve UnitedHealth's ability as an analytics and technology company.

According to our estimations, to attain the forecasted \$355.2 billion in revenues by 2025, it would have to grow at a Compound Annual Growth Rate (CAGR) of about 6.22% between 2021 and 2025.

Both companies expect the process to be completed in the second half of 2021.

Market Reaction and Risks

The impact caused by the deal is easily spotted looking at the stock trading volume of Change Healthcare: on January 5th, the number of shares traded was of \$2,295,300 while in the next day - the day when the deal was announced - the volume traded increased to \$86,728,100.

Despite the slight increase on the announcement day (January 6th) from \$344.80 to \$359.27, UnitedHealth Group's shares have been decreasing ever since. On February 8th, share price reached \$324, representing a decrease of 9.8% when compared to January 6th.

Meanwhile, the share price of Change Healthcare reflects a sharp increase by January 5th to 6th, from \$18.24 to \$23.72. In fact, since July 2020, the price of Change Healthcare's shares has repeatedly been rising, which may reflect the good expectations investors have about the company's future.

However, the combination of Optum and Change Healthcare has yet to receive approval from Change Healthcare's shareholders – mainly from Blackstone – and the regulatory approvals still need to take place as well as other closing conditions namely potential violations of the federal securities laws.

Sources: Bloomberg, Reuters, UnitedHealth Group, Yahoo Finance

QUICK FACTS

UnitedHealth was founded as United Healthcare, a holding company for the acquisition of Charter Med, which was one of the very first "health maintenance organizations," after the passage of the Health Maintenance Organization Act in 1973.

UnitedHealth was the first to create and implement a pharmacy benefits business, which handles prescription drug claims at retail pharmacies.

In March 2020, McKesson Corporation merged with Change Healthcare originating a new firm maintaining the name of the latter.

Hot Topic



Maria Veiga

Research Department

GameStop

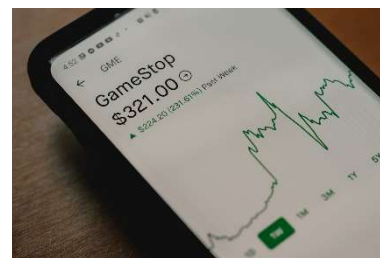
The well-known event involving the American gaming retailer GameStop highlights the pandemic trend: more and more individual retail investors are buying shares without resorting to more traditional forms of trading, such as trading floors. Instead, methods such as the so-called “dark trading” represent.

In this method, “best execution” is intended, which said, the order is executed in the fastest and cheapest way. First, the customer issues the purchase order through a low-commission broker, such as Robinhood. Then, due to existing agreements, the broker contacts a third party - a “market maker”, such as Melvin Capital or Citadel. These entities oversee the execution of the client's request, without resorting to the stock exchange, and compensate the brokers that chose them through a commission, normally included in the share price paid by the client.

All these entities are currently involved in the legal process of investigating financial manipulation of the shares of the retailer GameStop.

In this process, Keith Gill – one of Wall Street Bets investors who

invested in GameStop, is also being heard for being involved in the race through the Reddit network. This happened due to the “attack” of millions of amateur investors, organized by the social network, to the hedge funds that allegedly planned the fall of several listed companies, namely GameStop. As a result of the race, the company's stock rose from \$18.84 to \$480, in less than a month.



Source: Clay Banks/Unsplash

During the trial, the Reddit leader was forced to safeguard the reputation of the Wall Street Bets forum. Although for those who watch from the outside it is a mess, the organization proved to be quite cohesive, being able to raise important questions about how the financial system works, says Steve Huffman, founder of Reddit.

One of the problems mentioned was the manipulation of the system by Melvin Capital, through Short Selling. Even though this is a common procedure in the stock markets, considering the situation under analysis, the

market maker is accused of applying this system to a greater number of shares than the existing one, practicing the illegal "naked short".

In April 2020, when the retailer was forced to close stores all over the world, the weight of short selling increased the expectation of bankruptcy on the stock exchange. This weight reached 140%, that is, for each share in favour of GameStop, 1.4 bets on its fall.

Brad Sherman, the Democratic Congressman, stressed that the current practice does not allow many customers to enjoy the right to "best execution", buying the share at the cheapest price and the fastest way. This call for attention leads to another of the points discussed at trial: the possibility of collusion between Robinhood and Citadel. Vladimir Tenev, responsible for the brokerage, justifies this data by the offer of "best executions" by Citadel and adds that when this does not happen, other alternatives are sought.

Although this case has occurred more than a month ago, there are still no verdicts regarding the investigation. However, Jennifer Schulp, director of financial regulation at the Cato Institute, said that the payment for order flow - the method commonly used in "dark trading" - is not seen as a systemic risk in the market. For this reason, it is not expected that the USA will accompany Europe or Canada - at least for the

time being - requiring that all trading must be carried out in properly regulated markets.

All in all, when in April 2020 Keith Gill bought \$50 thousand in GameStop shares, he never would have thought that today the company would be the one of the most talked-about subjects in Wall Street. This event prompted considerable profits for some investors who saw their share rise with the speculation created, whilst prompting high losses to several others, such as the hedge funds mentioned above. Thus, this event involving GameStop highlighted the need for the financial institutions to be more careful when it comes to the prevention of future events like this one.

Sources: BBC News, Financial Times, JP Morgan, Sky News, Yahoo Finance

QUICK FACTS

GameStop was established by Harvard Students.

During January, GameStop shares increased until a maximum of 30 times the value recorded before the "short squeeze" had begun.

GameStop rose as much as 85% to \$170.01 on February 25th, it was their highest since the beginning of the month.

GameStop's employees can try out the games for free on only a few terms such as: the games cannot be new, a popular title or the only copy at the store and for the borrowing period of up to four days.

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