

Top 10 U.S. Stock Picks for 2015

ScotiaMcLeod Portfolio Advisory Group

January 5, 2015

- **U.S. equities outperformed every other developed market in 2014 with a third straight year of double digit gains. The U.S. equity market will likely lead the world in 2015 with the rebound of the U.S. economy and the rise of the consumer.**
 - This year's top 10 picks are (in alphabetical order): Celgene Corp. (CELG), Citigroup Inc. (C), CVS Health Corp. (CVS), EOG Resources Inc. (EOG), Google Inc. (GOOGL), McKesson Corp. (MCK), Ryder System Inc. (R), SanDisk Corp. (SNDK), Simon Property Group Inc. (SPG), Starbucks Corp. (SBUX).

- **The 2014 list of top picks significantly outperformed the S&P 500 Index.**
 - Average gain of 16.75% for 2014's top 10 picks, 536 bps of outperformance over the S&P 500 Index's 11.39% gain last year.

Top 10 U.S. Picks for 2015

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Our stock picks for 2015 have a cyclical orientation, which is aligned with our view that global economic growth will likely accelerate throughout the year. Most of the companies on our list are trading at discounts to their peers, and we believe offer compelling upside potential.

U.S. Top 10 Picks for 2015 - Consensus Data*										
Company	Ticker	Dec. 31,			Bloomberg Consensus Target	Potential Total Return	Bloomberg ratings			Market Cap. (millions)
		2014	Dividend	Yield			Buy	Hold	Sell	
CELGENE CORP	CELG	\$111.86	\$0.00	0.0%	\$120.50	8%	25	3	1	\$89,343
CITIGROUP INC	C	\$54.11	\$0.04	0.1%	\$60.52	12%	22	11	2	\$163,926
CVS HEALTH CORP	CVS	\$96.31	\$1.40	1.5%	\$102.67	8%	23	5	0	\$110,408
EOG RESOURCES INC	EOG	\$92.07	\$0.67	0.7%	\$106.26	16%	34	6	0	\$50,455
GOOGLE INC-CL A	GOOGL	\$530.66	\$0.00	0.0%	\$645.21	22%	46	11	0	\$358,420
MCKESSON CORP	MCK	\$207.58	\$0.96	0.5%	\$228.91	11%	20	2	1	\$48,134
RYDER SYSTEM INC	R	\$92.85	\$1.48	1.6%	\$102.54	12%	13	4	0	\$4,925
SANDISK CORP	SNDK	\$97.98	\$1.20	1.2%	\$110.97	14%	30	8	1	\$21,619
SIMON PROPERTY GROUP INC	SPG	\$182.11	\$5.20	2.9%	\$197.90	12%	22	6	0	\$57,241
STARBUCKS CORP	SBUX	\$82.05	\$1.28	1.6%	\$90.85	12%	25	6	0	\$61,398
Average				1.0%		13%				

*U.S. dollars Source: Bloomberg

Our previous top ten lists traditionally had placed emphasis in U.S. multinationals, but this year we include three companies that are primarily exposed to the rebound of the U.S. economy and the rise of the consumer. These companies are CVS Health, Simon Property Group and Ryder. Our recommendation to buy EOG Resources is driven largely by the stock's attractive valuation, strong balance sheet and cash flow generation, the expectation of a rebound in oil prices and the belief the shares will be re-valued as the industry recovers from oversold levels. We are more optimistic on U.S. Financials generally, and Citigroup is benefitting from improving asset quality, resurgence in lending, expanding interest spreads and high levels of capital. We have also included a Biotech company for the second year in a row, Celgene, whose core business is performing very well as the company is capturing a growing share of the expanding market for molecular biology. Its focus is helping patients fight Cancer and HIV. From a thematic perspective, exposure to the rise in consumer spending, we are including Starbucks and Simon Property Group. Starbucks is well positioned to continue delivering strong growth results and margin expansion. Simon continues to deliver solid results and has raised its guidance in several occasions, given continued tenant demand for its premium assets.

U.S. equities outperformed every other developed market in 2014 with a third straight year of double digit gains. In 2014, the DOW and the S&P 500 reached new all-time highs as earnings grew and the valuation multiples expanded further. The S&P 500 delivered a strong 21.74% gain in Canadian dollar terms (11.39% in USD), outperforming the TSX Composite Index by 14.3%. Within the S&P 500, mixtures of defensive and cyclical sectors have outperformed. However, we expect that cyclical sectors will lead the market through 2015.

Companies worth mentioning include Royal Caribbean and CVS Health Corp., which achieved returns of 73.8% and 34.6% respectively. Both Royal Caribbean and CVS Health Corp. benefited from strong sales and undervalued positions. The two largest underperformers were Halliburton and Qualcomm. Halliburton reported strong earnings thru the year and made bid to acquire its competitor Baker Hughes. However, with a rapid decline in oil prices that position went from being up 45% in the year to down 22.5%. Qualcomm end up flat as it reported a weaker than expected Q4 and also issued guidance for FY15 below expectations as the issues in China are expected to persist into 2015 and there is still a lack of clarity on the situation.

Performance of 2014 U.S. Top 10 List				
Company	Ticker	Price		Change
		12/31/13	12/31/14	
HALLIBURTON CO	HAL	50.75	39.33	(22.5%)
QUALCOMM INC	QCOM	74.25	74.33	0.1%
ROYAL CARIBBEAN CRUISES L	RCL	47.42	82.43	73.8%
EMC CORP/MA	EMC	25.15	29.74	18.3%
CITIGROUP INC	C	52.11	54.11	3.8%
CVS HEALTH CORP	CVS	71.57	96.31	34.6%
JPMORGAN CHASE & CO	JPM	58.48	62.58	7.0%
GILEAD SCIENCES INC	GILD	75.10	94.26	25.5%
RYDER SYSTEM INC	R	73.78	92.85	25.8%
UNITED TECHNOLOGIES CORP	UTX	113.80	115.00	1.1%
Average price-only return for top 10 list				16.8%
S&P 500 Index		1,848.4	2,058.90	11.4%
Outperformance				5.4%
Notes:				

CELGENE CORP. (CELG)

Company Description:

Celgene Corporation, a global biopharmaceutical company, which focuses on discovery, development, and commercialization of therapies to treat cancer and immune-inflammatory related diseases. Its primary areas of expertise have been on hematological and solid tumor cancers, including multiple myeloma, myelodysplastic syndromes, chronic lymphocyte leukemia (CLL), non-Hodgkin's lymphoma (NHL), glioblastoma, and ovarian, pancreatic and prostate cancers.

Investment Thesis:

- Celgene's competitive positioning in core markets is essentially impenetrable and we see unrecognized value across its drug pipeline.
- Revlimid sales are growing at a robust 19%, benefiting from increased duration of therapy. More growth drivers are expected as CELG has registration filings for more indications in the U.S. and Europe. Sales of Abraxane also increased 25% to \$212 million.
- CELG has an attractive valuation. It trades at 23.1x P/E NTM (16% below biotech peers and 22% below 10Y historical avg.) and 17.8x EV/EBITDA NTM (15% above biotech peers and 14% below 10Y historical avg.).
- We believe the risk/reward profile for CELG is attractive and continue to maintain a positive outlook for the stock.
- The Bloomberg consensus ratings are 25 Buys, 3 Holds, and 1 Sell ratings with an average one year target price of \$120.50.

CITIGROUP INC. (C)

Company Description:

Citigroup Inc. is a diversified financial services holding company that provides a broad range of financial services to consumer and corporate customers. The company's services include investment banking, retail brokerage, corporate banking, and cash management products and services. Citigroup serves customers globally.

Investment Thesis:

- We are encouraged by Citigroup's capital build (CET1 is at 10.7%, supplementary leverage ratio at 6.0%), cost management and wind down of Citi Holdings (legacy assets).
- We believe the continued strength in capital levels will provide support for further increases dividends and share buyback programs, which will complement the attractive outlook for the underlying operations given the banks global footprint.
- The bank announced plans to exit consumer banking in 11 markets to accelerate the transformation of Global Consumer Banking by focusing on those markets where it has the greatest scale and growth potential.
- We also believe that recent settlements regarding mortgage litigation and Libor fixing accusations are positive for C as it puts the matters to rest and clears up a few more overhangs on the stock.
- C looks cheap on valuation. C trades at 10x P/E NTM (25% below U.S. peers and 48% below 10Y historical) and 0.8 P/BV (65% discount to peers and 41% below to 10Y historical).
- The Bloomberg consensus ratings are 22 Buys, 11 Holds, and 2 Sell ratings with an average one year target price of \$60.52.

CVS HEALTH (CVS)

Company Description:

CVS is the largest integrated pharmacy health care provider in the U.S. The company's offerings include pharmacy benefit management services; mail order, retail and specialty pharmacy; disease management programs; and retail clinics. The company operates drugstores throughout the U.S., and Puerto Rico.

Investment Thesis

- We expect CVS to continue to deliver positive results given its integrated business model and believe it is very well positioned to benefit from increased customer drug utilization from an ageing population, an increase in sales of generic drugs in 2015, and growth in specialty prescription demand.
- The ageing baby boomers (now between 45-54 years old) are a benefit as the increase in prescription drug usage increases significantly as people age, with prescription drug usage more than doubling from an average of 13.0 prescriptions per person between 45-54 years old to an average of 27.3 prescriptions per person between 65-74 years old.
- In addition, the launch of a generic drug joint venture with Cardinal Health in July should result in lower drug purchasing costs as contracts are renewed throughout 2015.
- CVS is the largest operator of in-store health clinics in the U.S. with about 700 clinics in operation. This provides the company with another avenue with which to meet the rising demand for health services and a growing physician shortage in the U.S.
- CVS shares are trading at a forward P/E of 18.8x while consensus earnings estimates are forecasting growth in the range of 15%-17%.
- Bloomberg consensus ratings: 23 Buys, 5 Holds and 0 Sells with a consensus target price of \$102.67.

EOG RESOURCES (EOG)

Company Description:

EOG Resources Inc. explores for, develops and markets natural gas and crude oil. The Company operates in major producing basins in the United States, Canada, Trinidad, the United Kingdom North Sea, China and other select international areas.

Investment Thesis:

- EOG maintains strong positions in liquids-rich plays such as Eagle Ford Shale, the Bakken, and Niobrara, and the Company has superior technical abilities.
- We believe the strength in the capital levels will provide support for further increases dividends and share buyback programs, which will complement the attractive outlook. Excellent capital discipline, the company spend within cash flow and solid balance sheet with Debt to EBITDA at 0.65x.
- EOG is among the lowest-cost producers extracting crude from shale formations and has boosted average output by more than 30 percent annually since 2010.
- EOG valuation looks attractive. It trades at 17.8x P/E NTM (11% below peers and 5% below 10Y historical premium) and 5.9x EV/EBITDA NTM (9% above peers and in line with 5Y historical).
- We think the stock will continue to outperform due to the company's high-quality assets, superior technical abilities, and above-average returns and growth.
- The Bloomberg consensus ratings are 34 Buys, 6 Holds, and 0 Sell ratings with an average one year target price of \$106.26.

GOOGLE INC. (GOOGL)

Company Description:

Google Inc. is a global technology company that designs and offers various products and services. The Company is primarily focused on web-based search and display advertising and tools, desktop and mobile operating systems, consumer, enterprise solutions, commerce, and hardware products.

Investment Thesis:

- Google ramps up spending on acquiring new companies and businesses looking for new sources of revenue, it increased R&D spending by 50% and makes significant efforts to monetize the potential of mobile internet growth.
- Google launched in India the first smartphones under its Android One project, pricing them at around 6,399 rupees (\$105) to capture the low-cost segment of the world's fastest growing smartphone market.
- GOOGL is attractively valued. It trades at 17.6x P/E NTM (32% below peers and 26% below its 10Y historical premium) and 9.8x EV/EBITDA NTM (29% below peers and 28% below its 10Y historical premium).
- We believe GOOGL is well positioned for the transition to mobile and believe it will continue to benefit from its strengthening relationship with brands.
- The Bloomberg consensus ratings are 46 Buys, 11 Holds, and 0 Sell ratings with an average one year target price of \$645.21.

McKESON CORP. (MCK)

Company Description:

McKesson distributes pharmaceuticals, medical-surgical supplies, and health and beauty care products to the healthcare industry throughout North America and internationally. The company also develops, implements, and supports software that facilitates the integration of data throughout the health enterprise. In addition, MCK offers analytic, care management and patient solutions for payers.

Investment Thesis:

- McKesson is the number one pharmaceutical distributor in the U.S. and Canada, the largest health care IT provider, with a customer base of over 50% of all U.S. hospitals; and the largest distributor of medical surgical products to alternative care sites. McKesson's large presence in drugs, medical supplies and information technology provide important cross-selling opportunities.
- This strong market position should allow McKesson to deliver strong revenue growth in 2015, forecast to be approximately 30%. Some of this growth is from the Drug Distribution segment, which is forecast to increase meaningfully reflecting the acquisition of Celesio in February 2014.
- In addition, specialty pharmacy continues to be a good source of growth, and the company is expected to leverage its U.S. oncology operations, which should also drive positive results.
- The stock is trading at a 12-month forward P/E of 17x, while the consensus forecast for earnings growth is in the range of 30% over the next 12 months. While the balance sheet leverage has increased with the acquisition of Celesio this year, we believe the company will allocate free cash flow towards debt repayments.
- The Bloomberg consensus ratings include 20 Buys, 2 Holds and 1 Sell recommendation with a consensus target price of \$228.91.

RYDER SYSTEMS INC. (R)

Company Description:

Ryder Systems Inc. provides a continuum of logistics, supply chain, and transportation management solutions worldwide. The company's offerings range from full-service leasing, commercial rental and maintenance of vehicles to integrated services. Ryder also offers comprehensive supply chain solutions, logistics management services, and e-commerce solutions.

Investment Thesis:

- We believe that Ryder is a well-managed company that should benefit from secular growth in fleet and logistics outsourcing. The underlying industry fundamentals point to a healthy trucking environment, supporting related logistics services and higher margins.
- We expect further fleet growth as the U.S. economy continues to improve. Additionally, Ryder's full-service truck leasing operations should continue to benefit from delayed spending on equipment and technology.
- Ryder's age of leased fleet vehicles has been dropping, which translates into lower maintenance expense and is well received by customers who sign longer contracts as they seek fuel efficiency and reliability.
- Ryder is attractively valued. It trades at 14.2x P/E NTM (21% below peers and 6% above its 10Y historical) and 5.3x EV/EBITDA NTM (50% below peers and 26% above its 10Y historical).
- The Bloomberg consensus ratings are 13 Buys, 4 Holds, and 0 Sell ratings with an average one year target price of \$102.83.

SANDISK CORP. (SNDK)

Company Description:

SanDisk Corp. designs, develops, and manufactures data storage solutions in a variety of form factors using flash memory, proprietary controller and firmware technologies. The Company's solutions include removable cards, embedded products, universal serial bus, or USB, drives, digital media players, wafers and components.

Investment Thesis:

- There is a secular growth story in the flash memory space. With the rapid adoption of mobile devices, particularly Smartphones and tablets as well as servers and other consumer electronics.
- SNDK continues to expect a healthy industry supply/demand environment in 2015, and expects to be in pilot production with 3D NAND in the second half of 2015 with target volume production in 2016.
- SanDisk's revenue mix to continue to shift toward the higher-valued and stickier Solid State Drive market (for servers as well as notebook and desktop computers). We believe this shift in product mix can lift SanDisk's product gross margin to over 50%.
- SNDK is attractively valued. It trades at 14.7x P/E NTM (11% below peers and 55% below its 10Y historical) and 7.2x EV/EBITDA NTM (22% below peers and 26% below its 10Y historical).
- We believe that SanDisk makes for a compelling investment opportunity given their strong positioning in the attractive flash memory area, their strong balance sheet and barriers to entry as modern wafer processing facilities to make NAND memory would require high capital investment.
- The Bloomberg consensus ratings are 30 Buys, 8 Holds, and 1 Sell ratings with an average one year target price of \$111.00.

SIMON PROPERTY GROUP INC. (SPG)

Company Description:

Simon Property Group Inc. is a self-administered and self-managed, real estate investment trust. The Company owns, develops, and manages retail real estate properties including regional malls, outlet centers, community / lifestyle centers, and international properties.

Investment Thesis:

- SPG continues to deliver solid results and has raised its guidance on several occasions, given continued demand for its premium assets, limited new supply, established relationships with retail partners, and a strong investment pipeline.
- SPG is under contract to acquire Glimcher Realty's (GTR) crown jewels (Jersey Gardens and University Park Village). Additionally, SPG could also invest in 2 mall projects at Oyster Bay in Long Island, NY and an undisclosed location. SPG is dedicating a significant portion of its new development budget to building new Premium Outlets.
- SPG trades at 18.7x 2015 FFO estimate, slightly higher than the mall group average of 18.1x. On an AFFO basis, SPG trades at 19.7x 2015 estimates lower than the average of 20.6x.
- SPG strategy of owning quality retail assets, its conservative balance sheet and thoughtful, opportunistic capital allocation have been key to generating above-average returns, while enhancing NOI growth and asset value.
- The Bloomberg consensus ratings are 22 Buys, 6 Holds, and 0 Sell ratings with an average one year target price of \$197.90.

STARBUCKS (SBUX)

Company Description

Starbucks retails, roasts, and provides its own brand of specialty coffee. It is the world's leading coffee retailer of high-quality coffee products, which it sells through its more than 20,800 retail stores globally and multiple retail channels. The Company sells whole bean coffees through its sales group, direct response business, supermarkets, and online. Starbucks also produces and sells bottled coffee drinks and a line of ice creams.

Investment Thesis:

- Starbucks is very well positioned to continue delivering strong growth results and margin expansion.
- The company continues to operate with a cost advantage and is benefiting from its expansion of its food offerings as well as expansion into other brands such as Teavana, La Boulange, and Evolution Fresh. We like the growing importance of tea in the Starbucks model as it is the second most consumed beverage in the world after water.
- Store redesigns have also resulted in a better customer experience, further strengthening customer loyalty. In addition, the loyalty card program provides one more avenue to enhance customer loyalty and encourage customer visits.
- The company is expected to benefit from the strength of the US consumer and positive same-store sales trends in the Americas, which represents approximately 75% of revenue and net income.
- The stock is trading at a forward P/E of 25.2x, which is in line with its 10-year historical average of 25.3x, and is forecast to generate attractive earnings growth in the range of 18%.
- The Bloomberg consensus ratings are 26 Buy recommendations, 6 Holds and 0 Sell ratings with a consensus target price of \$90.85.

Important Disclosures

The author(s) of the report own(s) securities of the following companies.

Celgene Corp, Citigroup Inc, SanDisk Corp, Halliburton Co, Qualcomm Inc, EMC Corp/Massachusetts, Gilead Sciences Inc, United Technologies Corp,

The supervisors of the Portfolio Advisory Group own securities of the following companies.

None.

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Ratings	Risk Rankings
<p>Focus Stock (FS)</p> <p>The stock represents an analyst's best idea(s); stocks in this category are expected to significantly outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.</p>	<p>Low Low financial and operational risk, high predictability of financial results, low stock volatility.</p>
<p>Sector Outperform (SO)</p> <p>The stock is expected to outperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.</p>	<p>Medium Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.</p>
<p>Sector Perform (SP)</p> <p>The stock is expected to perform approximately in line with the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.</p>	<p>High High financial and/or operational risk, low predictability of financial results, high stock volatility.</p>
<p>Sector Underperform (SU)</p> <p>The stock is expected to underperform the average 12-month total return of the analyst's coverage universe or an index identified by the analyst that includes, but is not limited to, stocks covered by the analyst.</p>	<p>Speculative Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.</p>
<p>Other Ratings</p> <p>Tender – Investors are guided to tender to the terms of the takeover offer.</p> <p>Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.</p>	