Stock #1: Warrior Met Coal
NYSE: HCC

Recommendation: **Buy**
Target Price: $35.9
Upside: 51%
Report Date: 10-Nov-2017

Full report presentation (10-slide ppt also attached)

Stock #2: Rosetta Stone Inc.
NYSE: RST

Recommendation: **Buy**
Target Price (2018E): $14.7
Upside (Downside): 51%
Report Date: 26-Oct-2017

Rosetta Stone provides technology-based learning products in the United States and internationally. It operates through three segments: Enterprise & Education Language, Literacy, and Consumer. The company offers courses in 30 languages under the Rosetta Stone, Lexia, Fit Brains, and Catalyst brand names.

RST is a well-run company, with a strong brand, virtually no debt, and projected profitability with sticky revenues. However, the market prices RST as its old, unsustainable, language CD-box business. Trading at EV/Sales of ~0.9x, compared to ~2.0x peers, it represents a low risk, positively skewed investment opportunity.

RST entered a model with more stable revenues and potential of growth, by pivoting away from selling language education CDs to individual consumers and into selling education software directly to schools. It cut costs drastically, and is on track to generate free cash flows by 2018 (breakeven in 2017). It is also increasing its profitability by moving away from markets in which it couldn't obtain enough scale to be economically viable. Finally, based on the industry's history, it is a potential target for acquisition at a much higher valuation then what its current price indicates.

Our valuation is based on a sum-of-the parts approach that uses different EV/Sales multiples for comparable businesses in each segment (1.5x for E&E, 3.0x for Literacy, and 0.5 for Consumer segment).

The resulting EV/Sales ratio of 1.6x represents a discount to most publicly-traded comparables, such as Cambium Learning (Nasdaq: ABCD) ~2.4x and is in line with out-of-favor peers such as Pearson (London: PSON) ~1.6x.

Stock #3: Lantheus Holdings Inc
NASDAQ: LNTH

We recommend purchasing the shares of Lantheus Holdings Inc (NASDAQ: LNTH) with a target price of $30. LNTH designs, manufactures and sells medical imaging reagents to pharmacies, R&D centers and hospitals. The company is a leader in development of new medical imaging reagents, used in both echocardiography and nuclear imaging (revenue share of approx. 45% each), which provide higher diagnostic capabilities for clinicians. Although a small player with a market capitalization of $830 million, LNTH has proven capabilities in both contrasting and radioactive reagents markets, which are expected to grow at 7.7% CAGR and 14.7% CAGR respectively per BCC Research. It recently developed F-18 and entered into a commercialization contract with GE Healthcare which provided $5 million in up-front payments and significant milestone–based payments (upwards of $60 million) with no liabilities associated on part of LNTH.

The stock has seen significant run-up in the past two months, up from $15.5 in mid-Oct to its current level of $22.25 following strong Q3 results. We believe there is still significant upside because of strong product pipeline and multi-year distributor contracts, cost-savings in manufacturing facilities and reduced debt burden. The stock currently trades at a discount to its larger peers, which include Eli Lilly & GSK, and we believe the secular shift of medical diagnostic imaging towards PET (and other nuclear imaging techniques) will benefit the company. Finally, the management has raised the full-year 2017 guidance for both revenue and adjusted EBITDA which further bodes well for the stock.

Stock #4: Applied Optoelectronics
NASDAQ: AAOI

We recommend purchasing the shares of Applied Optoelectronics (AAOI) at $59 target price. AAOI designs, manufactures and sells fiber optic networking products primarily for internet data centers and CATV (83% and 16% of revenue respectively). AAOI is a small player in the segment that includes the likes of Foxconn. However, AAOI has a technological and manufacturing advantage in its niche transceiver market and has a consistent track record of being the first to introduce higher speed and lower cost products to the market. AOI is currently supplying 3 out of 5 largest data center operators and is in the process of adding another one. The capital structure consists of only 11% debt but AAOI is able to generate 32% return on equity thanks to expanding economy of scale.

AAOI is a growth stock with 43% revenue growth in the last 3 years but trade at a discounted P/E of 10.8x (versus 17.6x peers' median). Market research (Light Counting) shows that leading data centers plan to double or triple their purchases in 2018 – consistent with more than 100% increase in traffic at Amazon, Facebook and Google in 2016. We expect the continual increase in traffic to drive the demand for AOI products. According to our DCF model, current valuation implied short-term growth of 24% which is likely to be exceeded. Although the upswing in demand may be temporary, there remains a considerable upside even if we assumed revenue dropped after the upgrade cycle and used a high required rate of return.

Stock #5: L-Brands
NYSE: LB

L Brands is a Retail company that operates different brands around US and the world. The main brands are Victoria Secret and Bath & Body. The market cap of the company is 12.55 Billion dollars, revenues of 12.6 Billion, EBITDA of 2.3 Billion and net Income of 1 Billion dollars. Our target price is 60, which implies a upside of 23%.

The investment thesis is driven by its cheap valuation. We believe the market overreacted to the decline in SSS (-8%) during 2017. We think this decrease is a one-off event caused by a bad collection they had in the 1 semester of 2017 and it would not be a recurrent trend. This is confirmed by recent results that shows a strong recovery. L brands has underperformed all the retail industry. The 1 Year return was -47% well below the 10.7% return of the S&P retail index.

The company is trading at historically low multiples, and the current price implies that the market is valuing LB as a company with low growth prospects. We think that the company has higher growth prospect given its strong plan to penetrate China and other emerging countries.

Consensus agrees with the current price and therefore we see a buy opportunity. L brands is trading at 13.5x P/E, 6.7x EV/EBITDA 2018, 14.5x FCF, and 6% dividend yield. The company has a competitive advantage given its brand recognition and therefore we think LB can compete with amazon (main risk) and other retailers over the long term.