



CHRISTMAS
CORPORATION

**S&P 500 INDEX
TARGET OF 2018**

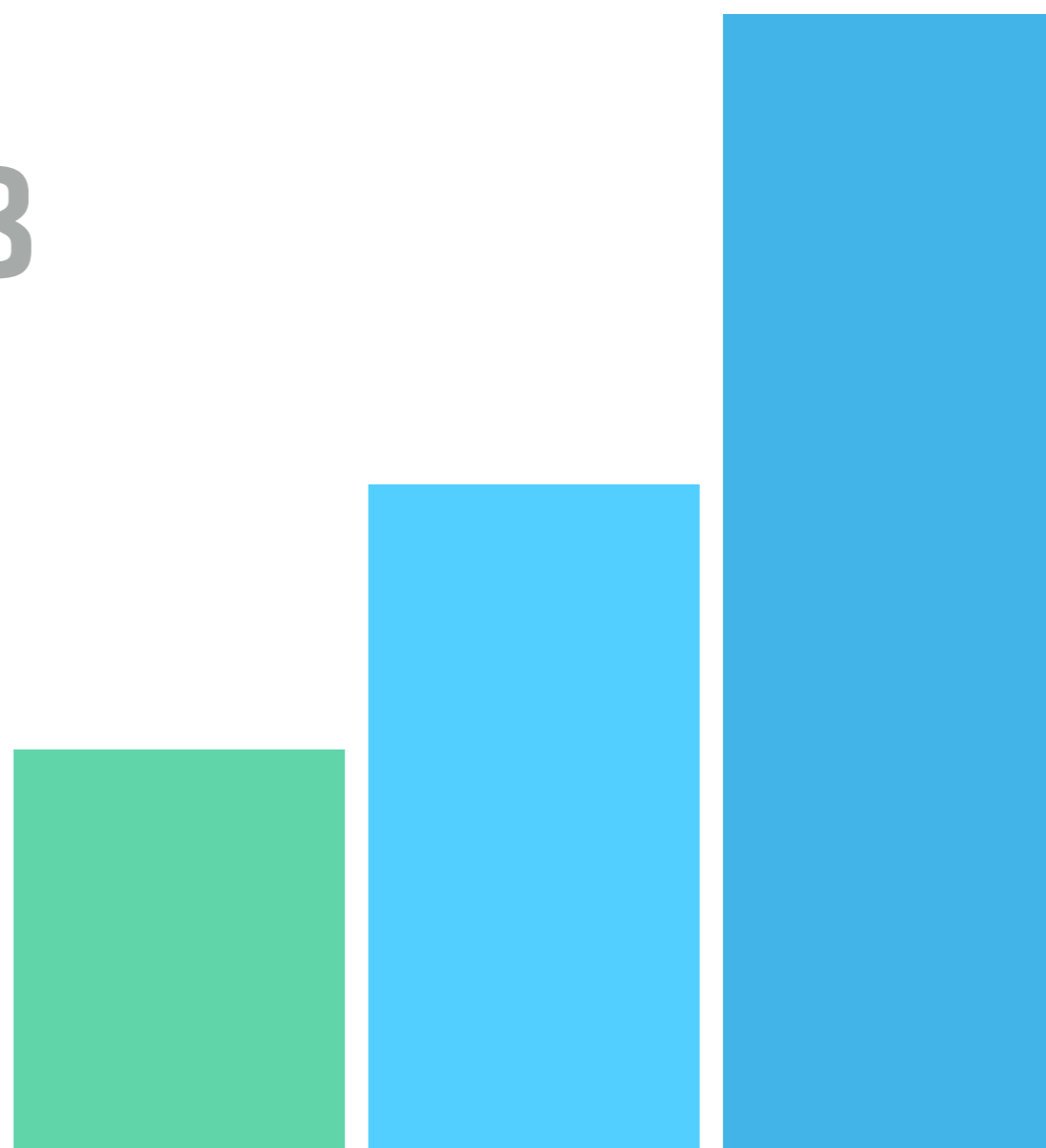


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January 22, 2018

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Highlights

Market recorded all-time high for almost every month in 2017. Rolling into 2018, the rally continues. With Shiller's CAPE ratio in 30s range and P/E ratio at 26x 2017's earnings, the S&P 500 index looks expensive.

But, valuation is tied to interest rate which has been at historically low level since 2009 great recession. With the expectation of Federal Reserve rate hike this year (which implies to the upward movement of treasury yield) and Tax Cut & Jobs Act is a new law of the U.S., what is the expected value of S&P 500 index?

Our valuation of the index is based on:

1. Fair dividend yield
2. Fair P/E ratio (or earnings yield)

both values shall be compared with the expected 10-year government bond (Treasury) yield.

Based on expected 2 rate hikes by the Fed, we expect the Treasury will come at 3% yield.

Earnings per share target is around \$135 for 2018, including impacts of tax cut. Our regressions show that for a 3% Treasury yield, the fair dividend yield is 2.03% and fair earnings yield is 4.41% (or P/E ratio at 22.68).

Based on those assumptions, we have a range of 2,808-3,061 for 2018's S&P 500 target value.

Our Valuation

We believe that **\$3,050** is a possible case for 2018, implying **1.87%** dividend yield and **22.59 times** P/E ratio (or **4.43%** earnings yield). Both dividend and earnings yield are still in acceptable level, considering:

- (a) 1.86% dividend yield is 0.62 times the projected Treasury yield, which is still better than 60-year average at 0.57.
- (b) 4.43% earnings yield is 1.48 times projected Treasury yield, which is also better than historical average at 1.21.



Fair Value Range of S&P 500 for 2018

Projected Treasury Yield

3.00%

Our S&P 500 Target:

3,050

Value by Earnings:

EPS in 2018

135.00

Implied P/E Ratio

Earnings Yield

4.41%

22.59

EY / TY

1.47

Fair S&P Value

3,060

Implied Dividend Yield

1.87%

Value by Dividend:

Dividend in 2018

57.00

Dividend Yield

2.03%

DY / TY

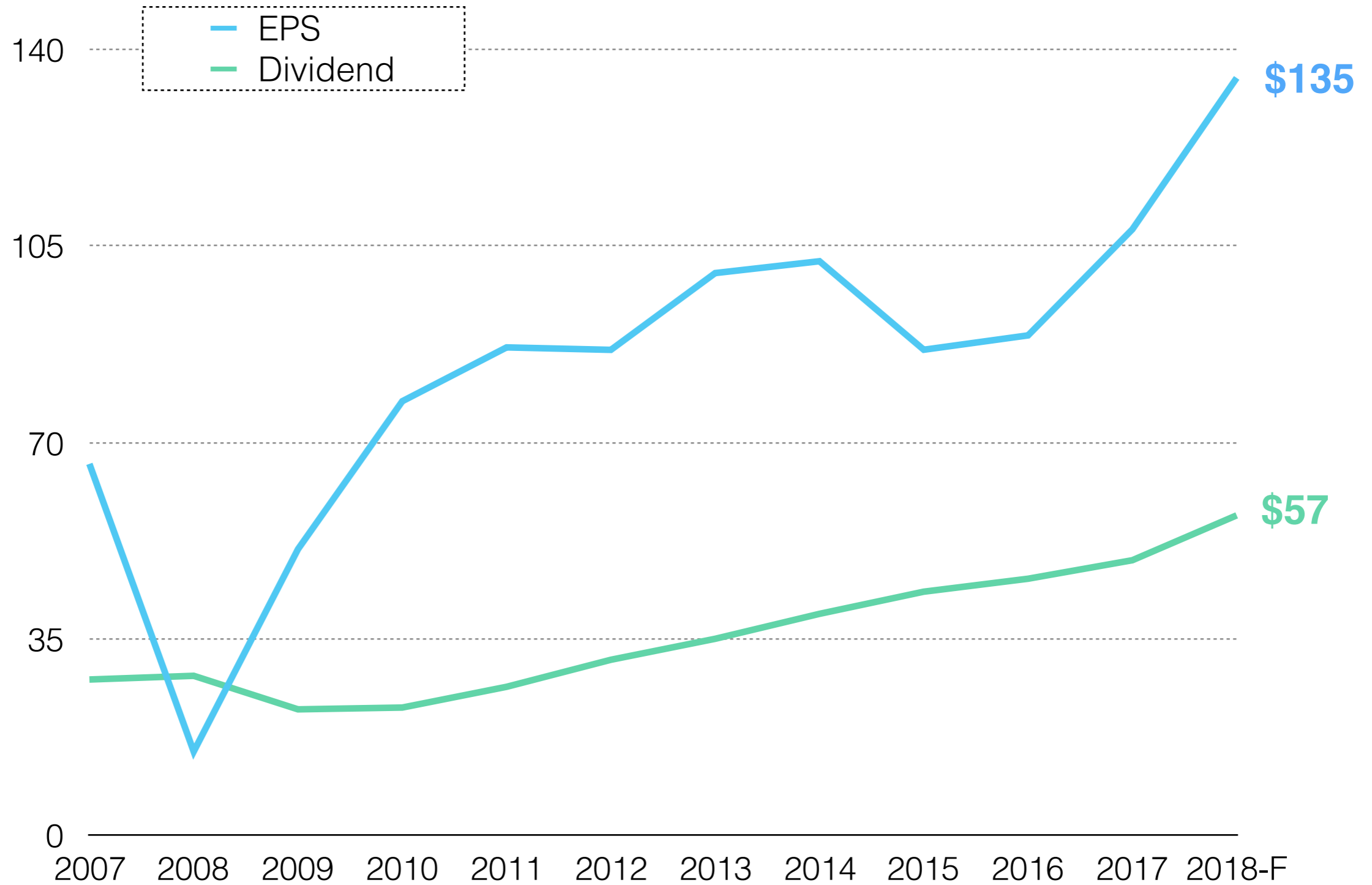
0.68

Fair S&P Value

2,808

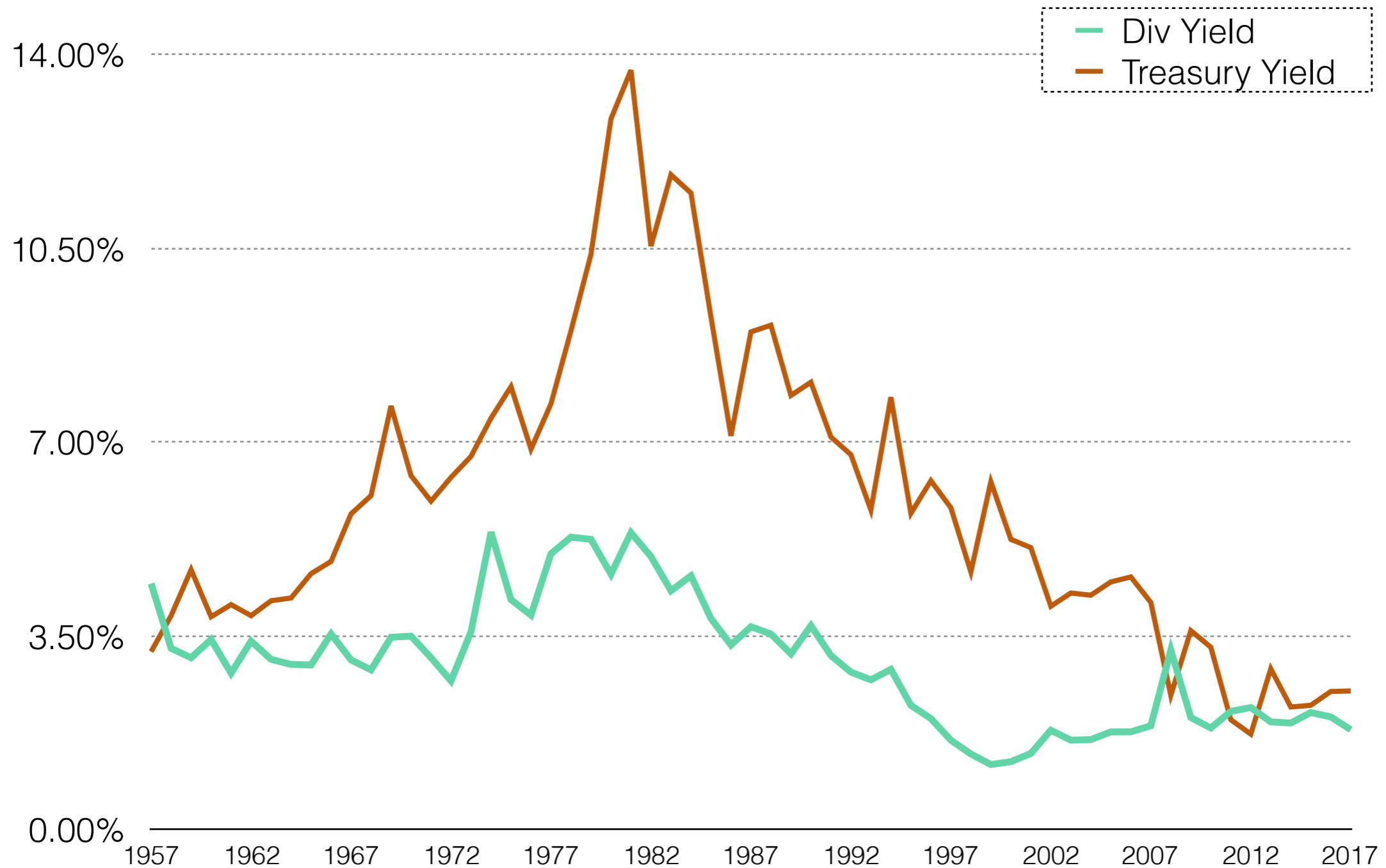


Expected S&P 500 EPS and Dividend for 2018



Dividend Yield vs 10-yr Government Bond, 1957-2017

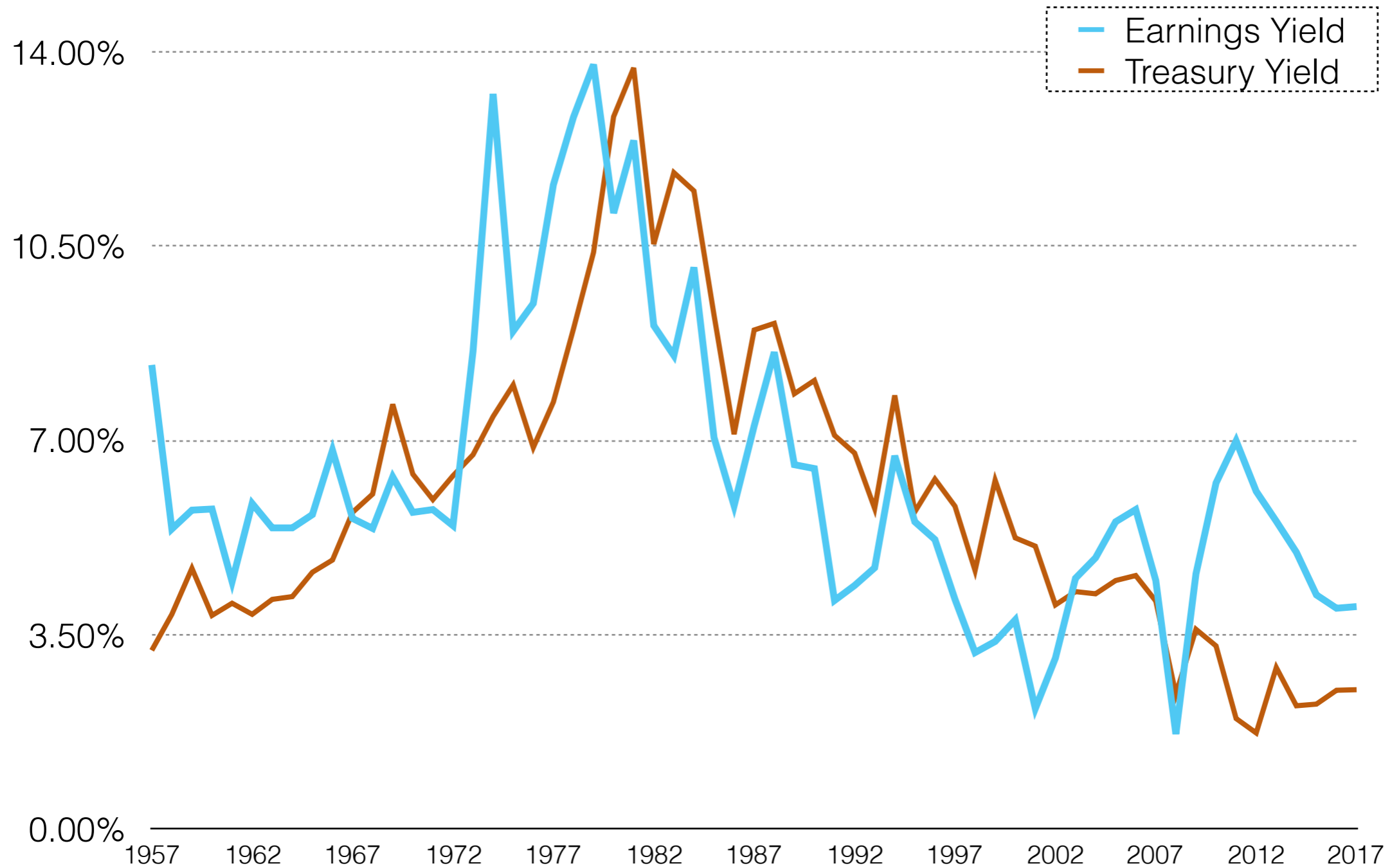
Historical Average Ratio of Dividend Yield to Treasury Yield: 0.57





Earnings Yield vs 10-yr Government Bond, 1957-2017

Historical Average Ratio of Earnings Yield to Treasury Yield: 1.21





Our Regression Results

<i>Independent Variables</i>	<i>Dependent Variable</i>	
	<i>DY</i>	<i>EY</i>
<i>Constant</i>	0.0126*** (0.0025)	0.0244*** (0.0061)
<i>GB10</i>	0.2565*** (0.0387)	0.6557*** (0.0922)
	R ² = 0.4815	R ² = 0.4628

*** $p < 0.01$

beta coefficients with standard errors in parenthesis

DY — Dividend Yield

EY — Earnings Yield

GB10 — 10-year Treasury Yield



Valuation by Other Wall Street Firms

Firm	Strategist	2018 S&P Target
UBS	Keith Parker	3,150
Canaccord Genuity	Tony Dwyer	3,100
Fundstrat Global Advisors	Thomas Lee	3,025
Credit Suisse	Jonathan Golub	3,000
JPMorgan Chase	Dubravko Lakos-Bujas	3,000
Oppenheimer	John Stoltzfus	3,000
RBC Capital Markets	Lori Calvasina	3,000
BTIG	Julian Emanuel	3,000
Bernstein	Noah Weisberger	3,000
BMO	Brian Belski	2,950
Goldman Sachs	David Kostin	2,850
Deutsche Bank	Binky Chadha	2,850
Wells Fargo Investment Institute	Scott Wren	2,850
BNY Mellon Wealth Management	Jeff Mortimer	2,850
Bank of America Merrill Lynch	Savita Subramanian	2,800
Citigroup	Tobias Levkovich	2,800
CFRA*	Sam Stovall	2,800
Morgan Stanley*	Mike Wilson	2,750

Source: CNBC

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