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COMPANY ALERT**Sesa Goa****Chinese steel makers agree to 23% QoQ increase in iron ore****Industry Update****Buy**

Reuters:SESA.BO Exchange:BSE Ticker:SESA

Price (INR)	354.10
Price target (INR)	540.00
52-week range (INR)	490.75 - 179.50
Market cap (USDm)	5,985
Shares outstanding (m)	830.9
Net debt/equity (%)	-56.2
Book value/share (INR)	93.25
Price/book (x)	3.8

FYE 3/31	2009A	2010E	2011E
Sales (INRm)	49,257	63,829	119,063
Net Profit (INRm)	19,881.3	24,312.6	49,813.4
DB EPS (INR)	25.25	29.26	59.95
PER (x)	5.0	12.1	5.9
Yield (net) (%)	1.8	0.8	1.7

As per media reports (Bloomberg), Baosteel Group (China's second-biggest steelmaker) has agreed to the proposed 23% QoQ increase in iron ore contract prices following its Japanese peers, thus, acceding to the demand of global iron ore miners.

Acceptance by the largest iron ore buyer likely to provide legitimacy to quarterly pricing system

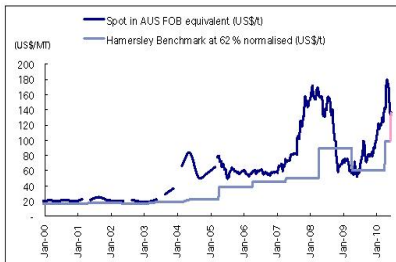
Chinese steel makers are the largest buyers of sea-borne iron ore and have been among the most vocal in resisting both the proposed move to a quarterly system and a quarterly price increase by global iron ore miners. Their acceptance of the quarterly price increase is likely to allay street concerns on the validity and sustainability of recently introduced quarterly iron ore contract price system. This also validates our firm belief that the global iron ore seaborne market remains tight, thus, underscoring our fundamental bullishness on both iron ore and iron ore equities.

Spot iron ore prices have stabilized after 20% decline; contract prices to provide support

Iron ore spot prices (63.5% Fe CFR China) have stabilized around the US \$150/tonne level after a 20% decline from YTD highs. As per our calculations, contract iron ore prices will now be at a slight premium to current spot iron ore prices. This is likely to limit chances of any meaningful weakness in spot prices from current levels.

Cheapest stock in DB's iron ore coverage, reiterate Buy on Sesa with TP of INR540

Sesa trades at 3.5x FY11E EV/EBITDA and is among the cheapest stocks in our iron ore universe. We value Sesa Goa at FY11E EV/EBITDA of 6.3x, implying a target price of INR540/share. Key risks: government regulation on windfall tax, delay in capacity ramp up, meaningful weakness in spot iron ore prices.



Source: Deutsche Bank

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