

# Weak iron ore outlook = earnings pressure

## Remain bearish on iron ore, cutting estimates, Maintain U/P

Iron ore outlook remains weak as global steel cutbacks continue to take hold. Our global team has cut iron ore contract price forecasts to factor in weaker iron ore fundamentals. We have cut our FY10e EPS by 15% as we incorporate lower contract prices and higher spot sales mix in FY10. We forecast Sesa's EPS to decline 36% in FY10. Valuations at 2.5x FY10E EBITDA appears reasonable but weak iron ore outlook, earnings downgrade risks will weigh on stock valuations, in our view.

## Spot prices to remain weak

India - China spot prices (cfr.) had rallied 30% from Oct lows to US\$81/t in Jan led by restocking activity and production restarts at small/mid Chinese mills (a key market for Indian iron ore exporters). However, spot prices has recently declined to ~US\$67/t on weaker Chinese demand as restocking is largely over, port inventories are rising and small/mid sized mills are cutting back production.

## FY10 contract price expected to fall 30% vs. 20% earlier

BAS-ML expects steel cutbacks to push iron ore market into a surplus of 117-183 mn tons over 2009-11. BAS-ML forecasts Aust. contract prices of US\$64/t (US\$73/t) in FY10. However, current China cfr spot price of US\$67/t implies a ~40% fall in contract prices for landed cost of contract ore to match China cfr spot prices. Assuming 40% fall in contract prices, Sesa's FY10e EPS falls by 44%.

## Key takeaways from Sesa's operations visit

We recently visited Sesa's mines in Goa and also met the Mgmt. Key takeaways were 1) iron ore demand has dropped sharply in March and are now similar to Oct lows; 2) Mgmt. reiterated 20-25% vol. growth guidance over next 3 years; 3) Sesa is implementing a number of initiatives to ease logistics bottleneck; 4) Mgmt expects to announce reserves upgrades soon given positive exploration results.

## Estimates (Mar)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	6,510	15,489	19,952	12,780	12,574
EPS	8.27	19.68	25.04	16.04	15.78
EPS Change (YoY)	13.2%	137.9%	27.3%	-35.9%	-1.6%
Dividend / Share	2.00	2.25	2.78	2.25	2.21
Free Cash Flow / Share	6.39	16.76	19.36	10.85	9.96

## Valuation (Mar)

	2007A	2008A	2009E	2010E	2011E
P/E	9.63x	4.05x	3.18x	4.96x	5.05x
Dividend Yield	2.51%	2.82%	3.49%	2.82%	2.77%
EV / EBITDA*	4.36x	1.82x	1.57x	2.50x	2.52x
Free Cash Flow Yield*	8.02%	21.04%	24.38%	13.78%	12.66%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 8.



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## Stock Data

Price	Rs79.65
Price Objective	Rs63.00
Date Established	9-Dec-2008
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	Rs60.00-Rs220.00
Mrkt Val / Shares Out (mn)	US\$1,218 / 787.2
Average Daily Volume	7,492,987
ML Symbol / Exchange	XSGAF / BSE
Bloomberg / Reuters	SESA IN / SESA.BO
ROE (2009E)	52.1%
Net Dbt to Eqty (Mar-2008A)	-0.7%
Est. 5-Yr EPS / DPS Growth	3.0% / NA
Free Float	49.0%



- Sesa Goa - Bombay S.E. National Index

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Refer to important disclosures on page 9 to 11. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.

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# iQprofile<sup>SM</sup> Sesa Goa Limited

Key Income Statement Data (Mar)	2007A	2008A	2009E	2010E	2011E
<b>(Rs Millions)</b>					
Sales	22,179	38,227	51,596	44,178	47,344
Gross Profit	10,398	24,007	28,088	18,688	19,056
Sell General & Admin Expense	(769)	(975)	(1,417)	(1,864)	(2,421)
Operating Profit	9,236	22,533	26,166	16,225	15,837
Net Interest & Other Income	421	717	436	2,032	2,126
Associates	NA	NA	NA	NA	NA
Pretax Income	9,657	23,249	26,602	18,258	17,963
Tax (expense) / Benefit	(3,147)	(7,760)	(6,651)	(5,477)	(5,389)
Net Income (Adjusted)	6,510	15,489	19,952	12,780	12,574
Average Fully Diluted Shares Outstanding	787	787	797	797	797

## Key Cash Flow Statement Data

Net Income	6,510	15,489	19,952	12,780	12,574
Depreciation & Amortization	393	500	506	599	797
Change in Working Capital	(239)	(1,696)	(2,516)	(1,037)	(1,779)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(519)	(426)	(655)	(2,148)	(2,156)
Cash Flow from Operations	6,145	13,867	17,286	10,194	9,437
Capital Expenditure	(1,117)	(674)	(2,000)	(1,550)	(1,500)
(Acquisition) / Disposal of Investments	(3,712)	(12,056)	0	0	0
Other Cash Inflow / (Outflow)	419	698	436	2,032	2,126
Cash Flow from Investing	(4,409)	(12,033)	(1,564)	482	626
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(1,800)	(1,836)	(2,568)	(2,040)	(2,007)
Cash Flow from Financing	(1,896)	(1,836)	(2,568)	(2,040)	(2,007)
Free Cash Flow	5,028	13,192	15,286	8,644	7,937
Net Debt	(212)	(210)	(13,365)	(22,001)	(30,056)
Change in Net Debt	64	2	(13,155)	(8,636)	(8,055)

## Key Balance Sheet Data

Property, Plant & Equipment	4,799	4,975	6,469	7,421	8,123
Other Non-Current Assets	8,454	20,510	20,510	20,510	20,510
Trade Receivables	2,708	4,725	6,361	6,173	6,875
Cash & Equivalents	212	210	13,365	22,001	30,056
Other Current Assets	3,376	3,708	4,797	5,721	6,589
Total Assets	19,550	34,128	51,502	61,826	72,153
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	649	664	664	664	664
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	2,617	3,763	3,754	3,337	3,097
Total Liabilities	3,266	4,427	4,418	4,001	3,761
Total Equity	16,284	29,701	47,084	57,825	68,392
Total Equity & Liabilities	19,550	34,128	51,502	61,826	72,153

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	44.6%	65.6%	53.6%	24.1%	19.7%
Return On Equity	47.2%	68.0%	52.1%	24.4%	19.9%
Operating Margin	41.6%	58.9%	50.7%	36.7%	33.5%
EBITDA Margin	43.4%	60.3%	51.7%	38.1%	35.1%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.9x	0.9x	0.9x	0.8x	0.8x
Asset Replacement Ratio	2.8x	1.3x	4.0x	2.6x	1.9x
Tax Rate (Reported)	32.6%	33.4%	25.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	-1.3%	-0.7%	-28.4%	-38.0%	-43.9%
Interest Cover	NM	NM	NA	NA	NA

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

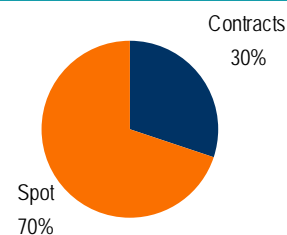
## Company Description

Sesa Goa is India's largest private sector producer exporter of iron ore with production of 15.3mn tons (FY09E). Vedanta Resources is the owns 51% stake in the Company. It has mining operations in Goa, Karnataka and Orissa and exports 93% of its production. Proved and proven reserves was 180.4mn tons as on March 08. It also has small presence in met coke and pig iron business.

## Investment Thesis

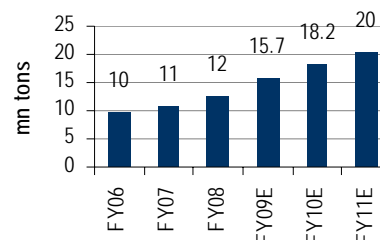
We expect iron ore outlook to deteriorate as large global steel cutbacks take hold. We forecast Sesa Goa earnings to decline sharply Dec Q onwards due to lower iron ore prices. Valuations appear cheap. But global recession concerns, falling iron ore prices and continuing earning downgrades will keep valuation depressed in our view. Hence Underperform

## Chart 1: FY10e vols mix: spot vs contract



Source: Sesa Goa, Banc of America Securities - Merrill Lynch Estimates

## Chart 2: iron ore volumes forecast



Source: Sesa Goa, Banc of America Securities - Merrill Lynch Estimates

## Stock Data

Price to Book Value

1.3x

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**Table 1: Global Iron Ore Supply-Demand**

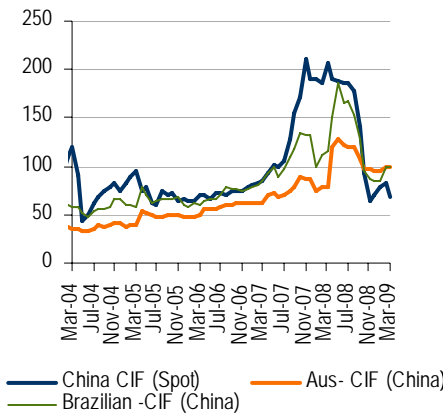
Mt	JFY08E	JFY09E	JFY10E	JFY11E
Supply	1,640	1,520	1,654	1,784
Demand	1,592	1,402	1,498	1,601
Balance	48	117	155	183

Source: AME, UNCTAD, Banc of America Securities – Merrill Lynch  
Research estimates

## Iron ore outlook remains weak

Iron ore outlook remains weak as global steel cutbacks continue to take hold. Recent rally in India - China iron ore spot prices in the first 2 months of 2009 was mainly led by restocking activity and seasonal factors. However, spot prices have started to ease on waning Chinese demand as restocking is largely over, port stocks are rising and small/mid sized Chinese mills have started to cutback production. Our global team expects large cutbacks in steel production to potentially push global iron ore market into a surplus of 117-183mn tons over 2009-11. BAS-ML has lowered iron ore contract price forecasts to US\$64/t (US\$73/t) in FY10 and FY11. Downside risks to contract prices remains as the implied fall in fob contract prices at current spot prices is ~40%.

**Chart 3: Iron ore spot prices has fallen sharply**

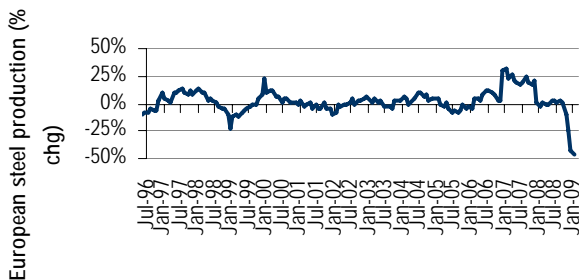


Source: CRU, Bloomberg, Banc of America Securities – Merrill Lynch  
Research

- Iron ore spot prices is weakening:** For the first 2 months of 2009, the premier gauge of the state of China's demand for iron ore imports, the India-China spot price – lifted 30% from the Oct-08 lows to ~US\$80/t; China's port stockpiles shrunk 20% to 57Mt over the same period; mothballed steel mills re-fired. The market got excited, thinking this was the start of some kind of China-led recovery. But given the state of the global steel sector, the event could only be considered as minor. Spot has since eased to US\$67.5/t cfr & FoB prices have fallen to US\$57/t back to Oct low levels.
- Iron ore fundamentals remain weak:** BAS-ML has revised down its forecast 2009e global crude steel production. As a result, we now forecast massive surpluses in both the global and seaborne iron ore markets. BAS-ML now forecasts global iron ore market surplus of 117-183mn tons and iron ore seaborne market surplus of 69-121mn tons over 2009-11e.
- FY10 contract prices forecast to fall 30% vs 20% earlier:** Our global team has revised down FY10 forecast cut to Australian iron ore prices, from -20% to -30%. We now forecast iron ore contract prices (Australia FoB) of US\$64/t in FY10 and FY11.
- Spot prices imply further downside risks to contract price forecast:** If we assume China's import trade adjusts so that the landed cost of all ores are equal to the current Indian-China price of \$67/t cfr (price convergence), and that freight rates do not change, then the FOB price of Australian & Brazilian prices need only to be cut by ~40-50% (JFY08/09 fob fines prices: Aust \$91/t; Braz \$81/t). If spot's decline continues during the talks, then the cuts required to preserve a common landed price will possibly lift even further. The greatest range of likely contract price outcomes is -20% to -50%.

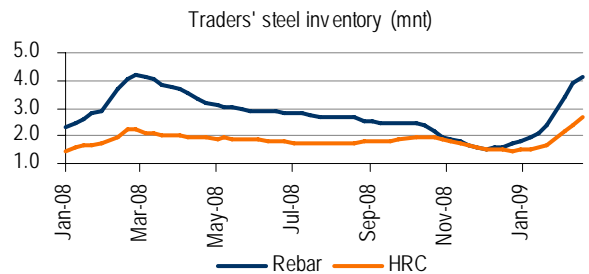
Please refer our global team's [detailed note on metals/bulks outlook](#)  
[Commodity Price Review, 5 March 2009](#)

**Chart 4: Global steel production has fallen sharply**



Source: IISI, Banc of America Securities – Merrill Lynch Research

**Chart 5: China Steel: restocking is over**

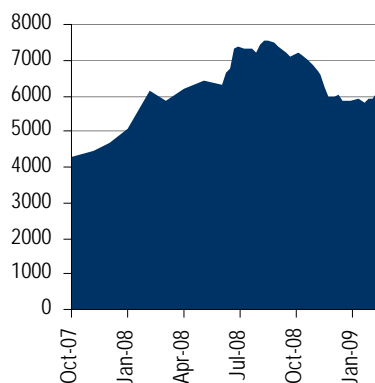


Source: CU Steel, Banc of America Securities – Merrill Lynch Research

## Key takeaways from Sesa mines visit

We recently visited Sesa Goa's iron ore operations in Goa and also met Sesa's management team. We visited Sesa's Codli mines in Goa which produces ~ 5.8mn tons of iron ore (~37% of Sesa's FY09e volumes) and has reserves of ~39.6mt (as on April 2008). Average Fe grade at Codli mines is ~56% which is washed and beneficiated to upgrade Fe content to ~59.6%. These mines are low cost due to its proximity to ports. The river loading points are 12-14Kms from the mines and the port is 40 nautical miles from the river loading points.

Chart 6: China's total port stockpile



Source: Bloomberg, Banc of America Securities – Merrill Lynch Research

Key takeaways from our visit are

- Demand has weakened since mid Feb:** After a short term rebound in demand in Dec 08 - Jan 09, Sesa is witnessing weaker iron ore demand in March similar to low Oct-08 levels. Iron ore spot FoB prices have fallen to ~US\$58/t (63.5% Fe) down 19% from recent peak of US\$73/t in late Jan.
- Goa operations are low costs, Karnataka, Orissa high cost:** Sesa's average FoB cost of production is ~ US\$26/t. Its Goa operations (70% of Sesa's volumes) low grade but lower cost. According to the management, FoB cost of production at its Goa mines is ~US\$15-17/t, (top quartile) due to proximity to ports. However Karnataka and Orissa mines (~30% of volumes) are high cost with FOB cost of over US\$40/t (3<sup>rd</sup> quartile). This is mainly due to high logistics costs as iron ore from these mines are transported through a mix of rail and road transport over a distance of 450-600Km.
- Spot sales mix to remain high near term:** Sesa has sold 83% of its volumes on spot during 9mFY09 (55% in FY08) due to lower offtake by many of Sesa's contract customers. In the near term, Sesa expects spot sales mix to remain high as incremental volumes are likely to be sold largely in the spot market given weaker contract demand. In the medium term, Sesa targets to sell 50% of volumes on contracts. We forecast 70% of Sesa's volumes to be sold on spot in FY10 and 55% of volumes on spot in FY11. A 1% increase in spots sales mix will reduce Sesa's FY10 EPS by 0.5%.
- Maintains 20-25% vol.s growth guidance over next few years:** Sesa expects volumes to increase from ~16mn tons in FY09 to ~20mn tons in FY10 and 25mn tons in FY11. It expects volume growth to largely come from its Karnataka and Orissa mines through de-bottlenecking and efficiency gains. We believe volumes growth could be challenging in the near term given weaker iron ore market. Also, Orissa and Karnataka mines are high costs and is vulnerable to sharp fall in iron ore spot prices. We currently forecast Sesa's volumes to grow from 15.7mn tons in FY09 to 18.2mn tons in FY10 and 20.6mn tons in FY11. 1% lower volume will reduce Sesa's EPS by 0.8%.
- Focusing on easing logistics bottleneck:** Management outlined a number of initiatives aimed at reducing logistics bottlenecks and improving throughput. Some of these initiatives include deployment of higher capacity excavators and dumpers, night pilotage for transhipper, utilizing idle capacity in monsoon by covering of barges, increasing transhipper capacity at Goa. Management also indicated plans of creating outer anchorage capacity at Haldia Port which should reduce waiting time and increase throughput at Haldia Port.

- Potential reserves/ resource upgrades:** Sesa's current reserves are ~180mn tons (March 08). This implies average mine life of ~10 years based on our medium term production forecasts. Sesa's management indicated that exploration results at its Karnataka and Goa mines was positive and that Sesa is confident of announcing potential reserves/ resources upgrades soon. Management expects to add ~500mn tons in reserves/resources over the next 1-2 years through a mix of organic and inorganic growth. Our current long term forecasts and NPV calculation incorporates reserves addition of 75mn tons. Higher than forecast additions to reserves pose upside risks to our valuations.

## Cutting FY10 estimates by 14%

We have cut our earnings forecast to reflect lower benchmark iron ore price forecasts and higher spots sales mix. Our FY09 EPS estimates remain flat. However we cut our FY10 EPS by 14% and FY11 EPS by 10%. We now forecast EPS of Rs25 in FY09. In FY10 we forecast EPS to fall 36% to Rs16 on lower iron ore prices. We now forecast iron ore volumes of 15.7mt in FY09, 18.2mn tons in FY10. We expect blended realizations to fall 25% in FY10 and 2% in FY11.

Our key assumptions and forecasts are summarized below.

**Table 2: Iron Ore: Key assumptions and forecast**

	FY08	FY09e	FY10e	FY11e
Iron ore volumes	12.4	15.7	18.2	20.4
y-o-y change	14%	27%	16%	12%
Blended Realization (Rs/t)	2655	2855	2138	2116
y-o-y change	61%	8%	-25%	-1%
Spot % of Sales	55%	80%	70%	55%
BAS-ML Benchmark Contract (US\$/t)	51	92	64	64
Iron ore spot FOB (US\$/t)	113	85	58	58
Fx (INR/USD)	40	46	49	46
Average Freight Cost (Rs/t)	467	784	823	872
Export Tax	300*	5.5%	0%	0%

Source: Sesa Goa, Banc of America Securities-Merrill Lynch Estimates

**Table 3: Metcoke and Pig iron: Key assumptions and forecast**

	FY08	FY09e	FY10e	FY11e
Pig Iron Capacity	0.25	0.25	0.25	0.25
Met Coke Capacity	0.28	0.28	0.28	0.28
<b>Volumes</b>				
Pig Iron (mn tons)	0.27	0.20	0.19	0.19
Met Coke (mn tons)	0.26	0.20	0.22	0.22
<b>Blended Realisation</b>				
Pig Iron (Rs/t)	18,661	26,021	17,915	17,046
Met Coke (Rs/t)	12,378	24,078	17,735	9,943
<b>coking coal costs</b>				
HCC benchmark (US\$/t)	96	300	120	95
Avg coking coal costs (Rs/t)	6,356	11,500	12,209	6,755

Source: Sesa Goa, Banc of America Securities-Merrill Lynch Estimates

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Table 4: Summary Profit and Loss Segmentwise

	FY08	FY09e	FY10e	FY11e
Revenues	38,227	51,596	44,178	47,344
y-o-y change	72%	35%	-14%	7%
<b>EBITDA</b>				
Iron Ore	21,129	24,213	16,055	15,792
Met Coke	954	1,890	526	247
Pig iron	949	569	242	596
<b>Group EBITDA</b>	<b>23,032</b>	<b>26,671</b>	<b>16,824</b>	<b>16,635</b>
y-o-y change	139%	16%	-37%	-1%
Margins	60%	52%	38%	35%
Depreciation	500	506	599	797
Interest/ Other Income net	-717	-436	-2032	-2126
<b>PBT</b>	<b>23,249</b>	<b>26,602</b>	<b>18,258</b>	<b>17,963</b>
Tax	7,760	6,651	5,477	5,389
tax rate	33%	25%	30%	30%
<b>PAT</b>	<b>15,489</b>	<b>19,952</b>	<b>12,780</b>	<b>12,574</b>
y-o-y change	138%	29%	-36%	-2%
Minority Interest	0	0	0	0
<b>PAT post minority</b>	<b>15,489</b>	<b>19,952</b>	<b>12,780</b>	<b>12,574</b>
<b>EPS</b>	<b>19.7</b>	<b>25.0</b>	<b>16.0</b>	<b>15.8</b>
y-o-y change	138%	27%	-36%	-2%

Source: Sesa Goa, Banc of America Securities-Merrill Lynch Estimates

Table 5: World iron ore demand supply balance

World Iron Ore Supply (million tonnes)	2007A	2008E	2009E	2010E	2011E					
Australia	274	-1%	338	23%	336	-1%	376	12%	423	12%
Brazil	344	12%	354	3%	283	-20%	346	22%	383	11%
INDIA TOTAL	166	1%	163	-2%	136	-16%	149	9%	173	16%
South Africa	54	6%	59	9%	56	-5%	63	13%	67	5%
North America	100	1%	101	1%	91	-9%	93	1%	92	-1%
Other (Europe, Other LatAm, Africa)	100	5%	104	4%	107	3%	112	5%	116	4%
China (63% Fe equivalent)	308	11%	329	7%	316	-4%	320	1%	334	4%
Inventories in China	0		0		0		0		0	
CIS	184	3%	192	4%	194	1%	195	1%	197	1%
<b>WORLD SUPPLY</b>	<b>1,531</b>	<b>5%</b>	<b>1,640</b>	<b>7%</b>	<b>1,520</b>	<b>-7%</b>	<b>1,654</b>	<b>9%</b>	<b>1,784</b>	<b>8%</b>

World Iron Ore Demand (million tonnes)	2007A	2008E	2009E	2010E	2011E					
European Union (EU 25)	167	0%	159	-5%	127	-20%	135	7%	142	5%
Other Europe	23	0%	24	2%	21	-10%	22	5%	23	1%
FSU	155	3%	142	-8%	119	-16%	132	10%	139	6%
North America	81	-4%	82	1%	67	-19%	70	5%	77	10%
South America	114	10%	112	-1%	102	-9%	106	4%	111	5%
Africa	24	-4%	22	-7%	19	-15%	21	12%	26	23%
Middle East	23	0%	23	1%	24	3%	26	9%	29	12%
China (63% Fe equivalent)	691	16%	707	2%	656	-7%	699	7%	749	7%
Japan	139	3%	136	-2%	86	-37%	95	11%	98	3%
South Korea	47	7%	53	12%	54	3%	56	4%	63	13%
India	81	8%	84	4%	84	0%	91	9%	98	7%
Taiwan	16	7%	17	4%	17	1%	17	1%	17	1%
Other Asia	6	0%	6	1%	5	-10%	5	-1%	6	5%
Oceania	26	4%	25	-4%	22	-13%	22	2%	22	0%
<b>World Demand</b>	<b>1,593</b>	<b>8%</b>	<b>1,592</b>	<b>0%</b>	<b>1,402</b>	<b>-12%</b>	<b>1,498</b>	<b>7%</b>	<b>1,601</b>	<b>7%</b>

<b>World surplus/-deficit</b>	<b>-62</b>	<b>48</b>	<b>117</b>	<b>155</b>	<b>183</b>
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Source: Banc of America Securities - Merrill Lynch Research, Metalitics, Tex Report

## Price objective basis & risk

### Sesa Goa Limited (XSGAF)

Our PO of Rs63 is set at a 40% discount to our NPV of Rs105/share owing to deteriorating iron ore fundamentals and high earnings risk from falling iron ore prices. Our PO implies a P/B of 0.85x.

Our NPV assumes a WACC of 14.5% and a terminal growth of 0%. We have assumed iron ore volumes of 15.7mn tons in FY09 and 18.2 mn tons in FY10 and 20.6 mn tons in FY11. We forecast benchmark contract prices of US\$92/t in FY09, US\$64/t in FY10 and FY11. We forecast average realisation of Rs2855/t in FY09, Rs2138/t in FY10 and Rs2166/t in FY11.

Downside risks to our valuation are sharper than expected fall in iron ore prices, weaker than expected volume growth, adverse regulatory policy changes. Upside risks are higher iron ore prices and stronger than expected volumes growth.

## Analyst Certification

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### APR - Metals & Mining Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY	Banpu Pcl	BPULF	BANPU TB	Komsun Suksumrun
	PT Adaro Energy Tbk	XPDRF	ADRO IJ	Daisy Suryo
	PT Bayan Resources Tbk	XBAYF	BYAN IJ	Daisy Suryo
	Tambang Batubara	PBATF	PTBA IJ	Daisy Suryo

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**APR - Metals & Mining Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>				
	Intl Nickel In	PTNDF	INCO IJ	Daisy Suryo
	Sterlite Industr	XTNDF	STLT IN	Vandana Luthra
	Sterlite Industries India Limited	SLT	SLT US	Vandana Luthra
<b>UNDERPERFORM</b>				
	Aneka Tambang	XANEF	ANTM IJ	Daisy Suryo
	Bumi Resources	PBMRF	BUMI IJ	Daisy Suryo
	Hindalco	HNDFF	HNDL IN	Vandana Luthra
	Jindal Steel and Power Limited	XJDLF	JSP IN	Bhaskar.N.Basu,CFA
	JSW Steel	XJWJF	JSTL IN	Bhaskar.N.Basu,CFA
	NALCO	NAUDF	NACL IN	Vandana Luthra
	Sesa Goa Limited	XSGAF	SESA IN	Bhaskar.N.Basu,CFA
	Steel Authority of India	SLAUF	SAIL IN	Bhaskar.N.Basu,CFA
	Tata Steel	TAEFL	TATA IN	Bhaskar.N.Basu,CFA
<b>REVIEW</b>				
	Angang Steel	ANGGF	347 HK	Frank Zhang
	Maanshan Iron & Steel	MAANF	323 HK	Frank Zhang

***iQmethod*<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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### XSGAF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

\*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of February 28, 2009 or such later date as indicated.

BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of February 28, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

### Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	54	39.42%	Buy	19	40.43%
Neutral	30	21.90%	Neutral	5	20.00%
Sell	53	38.69%	Sell	8	20.00%

### Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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