

⊙ Action

Sterlite shares have been very volatile over the 6 months and have underperformed HZ (key value driver for Sterlite) by 12%. We believe most of the negatives are in the stock price and the outlook should improve on: 1) stabilisation of power plants; 2) cost improvement at aluminium operations; and 3) early commissioning of silver expansion. We reaffirm BUY, with a revised price target of INR196.

⚡ Catalysts

Metal prices and a favourable government decision on the sale of its remaining stakes in Hindustan Zinc and Balco are potential share-price catalysts.

⚓ Anchor themes

Sterlite looks set for strong earnings growth in FY12F and FY13F, driven by overseas zinc business, power plants becoming operational and silver expansion at HZ. With the recent acquisition of zinc assets abroad for US\$1.36bn, investor concern regarding idle cash should also recede.

Favourable risk reward

① News flows to improve – negatives priced in

Sterlite Industries has seen a stream of negative news flow starting from concern about Vedanta acquiring a stake in Cairn India (CAIR IN, BUY), denial of Niyamgiri bauxite mine for VAL operations and delay in the commissioning of power plants at Sterlite Energy. We believe most of the negatives are priced in. The stock is trading at 6.3x FY13F consolidated EPS and 1.2x FY12 P/BV, at a discount to peers and historical multiples. We expect the outlook to improve, as: 1) power business should start contributing to profits from FY12F onwards as coal linkage issues and evacuation problems recede; 2) even Vedanta Aluminium operations should show improvement, with stabilisation of smelting and refining operations; and 3) the acquisition of Anglo American's zinc assets should start contributing to the bottom line.

We expect Sterlite to see consolidated earnings growth of 76.8% in FY12F and 35.2% in FY13F, driven by the acquisition of Anglo American's zinc assets and income from power business. While there has been a temporary setback in terms of deferral of VAL projects and the refusal of final approval for bauxite mine, we believe the long-term story of these projects is intact. Moreover, with execution issues in the power business now behind it, we believe the stock will stage a turnaround. We reaffirm BUY, with a price target of INR196.

② Positives from zinc business to nullify power disappointment

Due to delay in stabilization of power plants and higher coal costs, we reduce our valuation of Sterlite Energy to INR86.2bn (from INR98.3bn). But the impact here is offset by our higher value for Hindustan Zinc (price target of INR130, from INR115 earlier). At the same time, we also value the zinc assets acquired from Anglo American. Overall, our price target comes down to INR196, from INR199 earlier.

Closing price on 21 Mar	Rs159.9
Price target	Rs196.0 (from Rs199.0)
Upside/downside	22.6%
Difference from consensus	-6.7%
FY12F net profit (Rsmn)	62,605
Difference from consensus	-10.7%
Source: Nomura	

Nomura vs consensus

Our cautious stance on metal prices, especially zinc prices, is the key reason for the difference relative to consensus.

Key financials & valuations

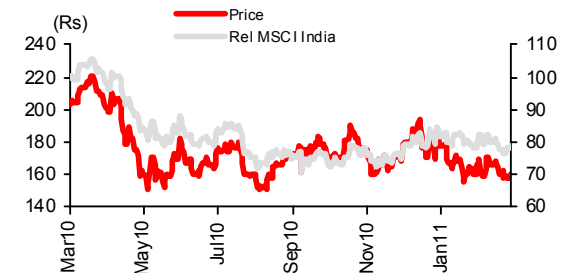
31 Mar (Rsmn)	FY10	FY11F	FY12F	FY13F
Revenue	244,103	274,675	399,976	463,090
Reported net profit	37,437	35,629	62,605	84,644
Normalised net profit	40,407	35,417	62,605	84,644
Normalised EPS (Rs)	48.08	10.54	18.62	25.18
Norm. EPS growth (%)	(2.2)	(78.1)	76.8	35.2
Norm. P/E (x)	3.3	15.2	8.6	6.3
EV/EBITDA (x)	9.7	9.3	5.2	3.9
Price/book (x)	0.4	1.3	1.2	1.1
Dividend yield (%)	3.1	0.7	0.7	0.7
ROE (%)	12.0	9.2	14.8	18.2
Net debt/equity (%)	16.0	13.7	18.3	13.7

Earnings revisions

Previous norm. net profit	31,453	61,079	67,913
Change from previous (%)	12.6	2.5	24.6
Previous norm. EPS (Rs)	9.36	18.17	20.20

Source: Company, Nomura estimates

Share price relative to MSCI India



	1m	3m	6m
Absolute (Rs)	(3.7)	(9.6)	(7.2)
Absolute (US\$)	(3.7)	(9.1)	(5.8)
Relative to Index	(1.1)	1.5	4.6
Market cap (US\$m)			11,937
Estimated free float (%)			47.2
52-week range (Rs)			221.3/151.0
3-mth avg daily turnover (US\$m)			24.63
Stock borrowability			Hard
Major shareholders (%)			
Vedanta			52.8

Source: Company, Nomura estimates

Any authors named on this report are research analysts unless otherwise indicated.
See the important disclosures and analyst certifications on pages 18 to 22.

Investment arguments

Favourable risk reward at current prices

After a series of negative news flows we believe the scenario should improve for Sterlite Industries with: 1) strong earning growth driven by stabilization of power plants and Hindustan Zinc; 2) acquisition of zinc assets of Anglo American will start contributing to earnings from Q4FY11; and 3) idle cash lying with the company will come down with the acquisition of zinc assets.

While we acknowledge the issues Sterlite is facing, we believe at current levels the stock price is already discounting the negatives and hence maintain BUY on the stock. However we have adjusted our target price for: 1) lower power valuation (INR86.2bn from INR98.3bn earlier) – due to higher coal cost and delay in commissioning of power plants; and 2) higher Hindustan Zinc valuation on account of faster ramp up of silver acquisition and slightly higher zinc price estimates (US\$2,200/t from US\$2,100/t). Accordingly our new target price is INR196, from INR199 earlier.

Zinc assets acquired from Anglo American at fair valuations

Sterlite Industries completed the acquisition of zinc assets of Anglo American during Q4FY11. It consists of four mines - Skorpion, Lisheen, Black Mountain and Gamsberg. We believe this is a good acquisition: as 1) valuations are fair at current zinc prices; and 2) these will be earnings accretive from the start.

Apart from the valuation aspect with US\$1.36bn investment in the acquisition, idle cash in the books of Sterlite will also come down which will likely reduce investor concerns on cash deployment. We value these assets at US\$1.56bn, slightly higher than the acquisition price of US\$1.36bn.

Earlier these assets were planned to be acquired by Hindustan Zinc. However due to delay in getting approval from the government of India (which holds a 25% stake in HZ), the acquisition couldn't be carried through HZ.

Strong earning growth in FY12-13 driven by zinc and power

Sterlite's expansion plans at different locations are near completion with phased commissioning slated to start in the next one to two quarters.

- While the company has already commissioned 210KT zinc expansion, the 100KT lead expansion is ready to be commissioned in 4QFY11, according to management.
- Sterlite Energy has commissioned the first 2 units of 600MW each which will get stabilized by end FY11 and remaining units should be completed by FY12.
- VAL, 29.5% owned by Sterlite, will see full production from 500KT aluminium smelter and 1mn tonne alumina refinery from FY12. However further expansion plans are still deferred.
- Balco's (51% owned by Sterlite) capacity expansion of 325KT is still on hold but a 1200MW (4*300MW) power plant will start getting synchronized from Q1FY12 and should be on line by end Q1FY13.
- Another growth avenue will likely be expansion at the Gamsberg mine - where the company expects to produce 400KTPA of zinc in 2-3 years time with an investment of US\$2bn.

Given the above-mentioned capacity expansion plans/phases, we expect Sterlite's consolidated EPS to increase by 76.8% and 35.2% to INR18.6 in FY12F and INR25.2 in FY13F, from INR10.6 in FY11F.

In our view, earnings growth in FY12 is driven by: 1) zinc earnings from Anglo American's assets acquired; and 2) the power business starting to contribute positively while FY13 earnings growth is driven by ramp up of power business as the whole

We believe the scenario should improve for Sterlite Industries going forward with robust earning growth.

2400MW of capacity will be operational at Sterlite Energy and 1200MW at Balco will also be operational.

Exhibit 1. Consolidation of earnings

(INR mn)	FY09	FY10	FY11F	FY12F	FY13F
Hindustan Zinc	17,702	26,229	28,032	34,209	35,575
% contribution	50.0%	70.1%	78.5%	54.6%	42.0%
Balco	2,638	2,734	1,812	978	1,976
% contribution	7.5%	7.3%	5.1%	1.6%	2.3%
Sterlite standalone	12,364	8,315	9,136	10,294	10,891
% contribution	34.9%	22.2%	25.6%	16.4%	12.9%
Sterlite energy	0	0	-5,836	6,931	25,115
% contribution	0.0%	0.0%	-16.3%	11.1%	29.7%
Anglo American's zinc assets acquired	0	0	3,701	13,930	13,707
% contribution	0.0%	0.0%	10.4%	22.2%	16.2%
Vedanta Aluminium	(1,536)	588	(1,311)	(3,172)	(2,565)
% contribution	-4.3%	1.6%	-3.7%	-5.1%	-3.0%
Total	35,400	37,437	35,700	62,605	84,644
EPS (INR)	12.5	11.1	10.6	18.6	25.2

Source: Company data, Nomura estimates, EPS for previous years adjusted for 1:1 stock split and bonus

Zinc still a dominant profit centre, power earnings to reduce zinc dependence

With acquisition of overseas zinc assets, contribution of zinc towards Sterlite's earnings should remain at close to 75% in FY12F despite Sterlite Energy starting operations. However once the whole 2400MW capacity is operational in FY13, earnings from zinc business will likely contribute just 64% of total earnings and power business will start contributing close to 24% of consolidated earnings in our view.

Since power business is typically a more stable business compared with metals, increasing contribution from the power business will likely reduce the cyclical nature of Sterlite's earnings. At the same time the contribution of HZ towards Sterlite's consolidated earnings will come down gradually to 42% from the current level of close to 80% in our view.

Evacuation and coal linkage issues solved at Sterlite energy

Sterlite Energy has faced delay in stabilization of power plants primarily on account of: 1) evacuation problems; and 2) coal linkage problems. The company has indicated that most of the issues associated with evacuation are solved and it has enough evacuation capacities to supply power from the 1st two units of 600MW each. We believe evacuation facilities from the other two units will also be completed in another quarter or two - before these units get operational.

On coal supply, the company has guided for 65% of coal from Coal India (COAL IN, Not rated) and the rest from e-auction and imports. Sterlite has started receiving linkage coal and will see higher plant load factor (PLF) going forward in our view.

The company is also laying railway lines to procure coal from nearby areas and will see almost all of its materials supplied by rail. We have not built in any value creation from captive block allotted to Sterlite Energy which the company says will be enough for 1000MW of power. The coal block is still in early stages of development and there are issues in development because it has been allocated to a consortium and not to Sterlite Energy alone.

VAL and Balco to see continued deferment of expansion

VAL and Balco aluminium smelters continue to be deferred despite most of the capex already being over. The company won't be operating the smelters without captive bauxite, as per management.

Sterlite management is hopeful of receiving either the Niyamgiri mine (expects favourable decision from the Supreme Court on allotment of Niyamgiri mine after the environmental ministry denied clearance) or allotment of a new mine by the Orissa Government. However even if it is allotted a new mine, it will likely take at least 2 years to develop it and hence we are not attributing any value to these projects (expansion in phase two) at the moment.

Due to delays in mining at Niyamgiri, VAL has to purchase bauxite externally. As a result, the cost of producing alumina and aluminium for VAL remains in excess of US\$300/t and US\$1,900/t, respectively, compared with Balco's cash production cost of US\$1,750-1,800/t for aluminium, per management. Previously, Sterlite had expected costs at VAL to come down to US\$1,000-1200/t with the commencement of mining at Niyamgiri. Now we estimate the delays should keep its production costs at US\$1,650-1,750/t even after its operations stabilise.

No clarity on stake sale by the government

Sterlite has options to purchase the remaining stake in Balco (49%) and Hindustan Zinc (25%) from the government of India. However the legality of these options has been questioned by the attorney general and the issue is in the Supreme Court.

A favourable decision by the Supreme Court will be a key positive for Sterlite in our view, as it will allow it full control over HZ cash which can be utilized in a more productive manner. However there is still no clarity on the progress of the issue.

Sensitivity analysis

See the table below for Sterlite's earnings sensitivity to different metal/power rates in FY12 and FY13:

Exhibit 2. Sensitivity analysis - EPS impact for FY12 and FY13

(INR/share)	FY12F	FY13F
Zinc prices - every US\$ 100/t change	0.75	0.75
Lead prices - every US\$ 100/t change	0.13	0.14
Merchant power rates- every INR 0.5/unit change	0.62	1.6
Aluminium prices - every US\$ 100/t change	0.28	0.28

Source: Company data, Nomura estimates

Financial analysis

Sterlite energy – lower PLF, higher coal costs the key negative

Sterlite Energy has faced delay in stabilization of power plants primarily on account of: 1) evacuation problems; and 2) coal linkage problems. This has resulted in the first unit still operating at a PLF (plant load factor) of 55-60%. However evacuation issues have been solved and even coal supply has improved as Sterlite has indicated that it will be procuring only 65% from linkage and the rest from e-auction and imports. With the above steps taken PLF for the power plants should improve going forward.

Power earnings impacted by lower PLF and higher coal costs

Key estimates:

- We have built in an average PLF of 87% for Sterlite Energy - 94% for the first 600MW to be sold on long-term PPA to the state grid and the remaining 3 units of 600MW at 85% on short-term contracts and the spot market.
- We build in average coal cost of INR 1800/t - this is higher than INR 1600/t built in earlier. This translates into a per unit cost of INR1.16, increasing by 5% per year for next 3 years and 2% thereafter.
- We have built in 1300MW power sale in FY12 and 2400MW in FY13. Earlier we had built in 1800MW in FY12. The lower estimate in FY12 is due to delay in commissioning of third and fourth units.

In FY13F Sterlite Energy's earnings will be very sensitive to merchant/spot power rates as Sterlite plans to sell 1800MW in short-term contracts in our view. We have built in a INR 4.5/unit merchant rate for FY13 and for every INR 0.5/unit change in the above Sterlite's earnings will change by INR 3.3bn in our view.

In terms of valuations, we believe every INR0.5/unit increase in merchant rates will raise our valuation by INR1.5bn (close to 1.7%). We have assumed 1200MW sale at long-term rates from FY15 onwards – 600MW to the state grid and 600MW to VAL.

Exhibit 3. Breakdown of power sales of Sterlite Energy

(Mega Watt)	FY11F	FY12F	FY13F	FY14F	FY15F
Sale to Gridco	100	600	600	600	600
Sale to VAL	-	-	-	-	600
Merchant sale	-	7,00	1,800	1,800	1,200

Source: Nomura estimates

To account for the delays in the commissioning of power plants, we reduce our valuation of Sterlite's power business to INR86.2bn, from INR98.3bn previously. We list our key assumptions in the table below.

Exhibit 4. Sterlite Energy - Key details

	FY11F	FY12F	FY13F	FY14F
Total power sales (MW)	100	1,300	2,400	2,700
Total power sales (mn units)	722	9,385	17,326	19,560
Power rate (INR/unit)				
State Grid/VAL	2.50	2.53	2.58	2.63
Merchant rate	5.0	4.5	4.4	4.3
Coal cost (INR/unit)	1.11	1.16	1.22	1.28
EBITDA (INRmn)	806	20,097	34,214	35,801
Net profit (INRmn)	-5,836	6,920	18,535	9,078

Note: Fall in FY14 earnings as Talwandi Sabu project will be in early stages

Source: Company data, Nomura estimates.

We revise our FY11F-13F earnings estimates for Sterlite to account for higher metal prices and production estimates. Please find below an update on its various businesses:

Zinc business (Hindustan Zinc – 64.9% stake)

We have increased HZ FY12 and FY13 earnings estimates by 16.6% and 6.9% primarily on account of faster silver ramp up and slightly higher zinc price estimates.

The company had earlier guided for 400 tonnes of silver production by FY13. However the company has announced early commissioning of the plant and our site visit to Khurd mine (March 3, 2011) also confirms the company guidance. While earlier we were building in 225 tonnes of silver in FY12 and 300 tonnes in FY13, we now build 350 tonnes and 400 tonnes respectively.

We have also increased our zinc price estimates from US\$2,100/t to US\$2,200/t primarily on account of improving global supply demand balance going forward. We expect surplus (globally) during 2011 to fall to 0.6mn tonnes from close to 1mn tonnes in 2010 and should be balanced in 2013. However given high inventory and new projects in the pipeline we believe upside to zinc price is capped for the next 2-3 years. Please see the table below for further details:

Incremental demand supply scenario for zinc is improving but high inventory is still an overhang

Exhibit 5. Hindustan Zinc - Key details

	FY09	FY10	FY11F	FY12F	FY13F
Sales volume					
Zinc (tonnes)	552,330	577,685	704,982	777,267	789,496
Lead (tonnes)	60,564	64,391	57,500	125,000	150,000
Silver (KG)	103,125	139,130	145,000	350,000	400,000
Zinc prices (US\$/tonne)	1,500	1,900	2,180	2,200	2,200
Lead prices (US\$/tonnes)	1,650	2,000	2,250	2,250	2,250
Sulphuric acid (INR/tonne)	4,932	981	2,500	2,500	2,500
EBITDA (INR mn)	27,342	46,701	50,972	64,246	67,594
Net profit (INR mn)	27,276	40,414	43,193	52,710	54,816
Previous estimates					
Zinc (tonnes)	552,330	577,685	707,574	789,472	797,367
Lead (tonnes)	60,564	64,391	72,343	92,343	118,616
Silver (KG)	103,125	139,130	190,000	225,000	300,000
Zinc prices (US\$/tonne)	1,500	1,900	2,100	2,100	2,100
Lead prices (US\$/tonnes)	1,650	2,000	2,200	2,200	2,200
Sulphuric acid (INR/tonne)	4,932	981	2,000	2,500	2,500
EBITDA (INR mn)	27,342	46,699	45,233	52,622	61,824
Net profit (INR mn)	27,276	40,412	39,050	45,214	51,297

Source: Company data, Nomura estimates

Anglo American's zinc assets (100% stake)

Sterlite completed the acquisition of four zinc mines held by Anglo American in February 2011. We have incorporated earnings contribution from these in our estimates. While in FY11 we build INR 3.7bn of profits (Sterlite's share of profits) from these assets, in FY12 and FY13 we expect net profits of INR 14.3bn from them. Please see the section on the assets for more details.

Balco (51% stake)

Sterlite's aluminium business is held through its 51% stake in Balco (unlisted) and 29.5% stake in VAL (unlisted). Since Sterlite is a minority shareholder of VAL, we have included earnings from VAL through share of associates.

We have reduced our earnings estimates for Balco in FY12 primarily on account of deferment of expansion plan and delay in power capacity. While costs remain high, Balco will not be able to benefit from new capacity until there is clarity on the bauxite

mine. At the same time in our view even the power plant will not come on line before FY13F (earlier we had built in commissioning in FY12F itself).

Exhibit 6. Balco - Key details

	FY09	FY10	FY11F	FY12F	FY13F
Aluminium sales volume (tonnes)	356,513	267,802	270,000	270,000	270,000
Power sales (mn units)	320	1,354	1,011	964	6,524
Aluminium prices (US\$/tonne)	2,200	1,800	2,088	2,250	2,250
EBITDA (INR mn)	7,952	7,472	7,427	7,930	14,647
Net profit (INR mn)	5,173	5,360	3,553	1,917	3,874
Previous estimates					
Aluminium sales volume (tonnes)	356,513	267,802	270,000	341,250	341,250
Power sales (mn units)	320	1,354	1,011	3,344	3,344
Aluminium prices (US\$/tonne)	2,200	1,800	2,088	2,200	2,200
EBITDA (INR mn)	7952	7,472	7,427	14,896	15,102
Net profit (INR mn)	5,173	5,360	2,445	1,663	3,672

Source: Company data, Nomura estimates

Standalone copper business (100%)

Sterlite's copper business consists of pure smelting operations. It also has copper mines in Tasmania with an annual production close to 28,000 tonnes and mine life of five to six years. We expect an EBITDA of INR7.3bn in FY12F and INR8.2bn in FY13F from the standalone business. We expect treatment and refining charges to remain at close to 15 cents/lb and acid prices at close to INR2,500/tonne in FY12F-13F. At the same time other income will come down as Sterlite has used US\$1.36bn to purchase zinc assets abroad in our view.

Exhibit 7. Copper business -Key details

(INR mn)	FY09	FY10	FY11F	FY12F	FY13F
Tc/Rc (Cents/lb)	18	14	15	15	15
Copper cathode production (tonnes)	312,833	334,174	362,579	369,830	377,227
EBITDA	8,440	5,091	6,352	7,315	8,209
Other income	8,099	11,193	9,128	9,728	9,728
Net profit	12,364	8,315	9,136	10,294	10,891
Net cash and investments	92,805	170,131	98,265	101,652	107,027

Source: Company data, Nomura estimates

Vedanta Aluminium (VAL) (29.5%)

We reduce our earnings estimates for VAL (unlisted) primarily on account of the loss of mining assets. Vedanta is dependent on external purchases of Bauxite for operations as per management. This has resulted in higher costs of close to US\$100/tonne of alumina, as per the company. We estimate an EBITDA of close to INR10.7bn in FY12F and INR14.2bn in FY13F, down from earlier estimates of INR19.6bn and INR23.6bn.

Exhibit 8. Vedanta aluminium - Key details

	FY10	FY11F	FY12F	FY13F
Alumina production (tonnes)	762,000	762,000	862,000	992,000
Aluminium sales volume (tonnes)	264,000	350,000	400,000	450,000
Alumina sales volume (tonnes)	234,000	62,000	62,000	92,000
Aluminium cost of production (US\$/tonne)	1,650	2,000	1,900	1,800
EBITDA (INR mn)	6,652	5,073	10,661	14,179
Net profit (INR mn)	2,034	-4,445	-10,754	-8,695
Previous estimates				
Alumina production (tonnes)	762,000	850,000	900,000	990,000
Aluminium sales volume (tonnes)	264,000	400,000	435,000	475,000
Alumina sales volume (tonnes)	234,000	50,000	30,000	40,000
Aluminium cost of production (US\$/tonne)	1,650	1,750	1,500	1,450
EBITDA (INR mn)	7,532	17,597	19,585	23,557
Net profit (INR mn)	2,034	1,275	1,125	5,223

Source: Company data, Nomura estimates

Earnings estimates

As a result of these changes, our consolidated net profit numbers now stand at INR63bn (from INR61bn) for FY12F and INR85bn (from INR68bn) for FY13F. The negative impact from the power and aluminium business has been compensated by higher earnings of HZ and earnings from overseas zinc assets as per our estimates. Please see the consolidated earning estimates in the table below:

Exhibit 9. Consolidation of earnings

(INR mn)	FY09	FY10	FY11F	FY12F	FY13F
Hindustan Zinc	17,702	26,229	28,032	34,209	35,575
% contribution	50.0%	70.1%	78.7%	54.6%	42.0%
Balco	2,638	2,734	1,812	978	1,976
% contribution	7.5%	7.3%	5.1%	1.6%	2.3%
Sterlite standalone	12,364	8,315	9,136	10,294	10,891
% contribution	34.9%	22.2%	25.6%	16.4%	12.9%
Sterlite energy	0	0	-5,836	6,931	25,115
% contribution	0.0%	0.0%	-16.4%	11.1%	29.7%
Anglo American's zinc assets acquired	0	0	3,629	13,930	13,707
% contribution	0.0%	0.0%	10.2%	22.2%	16.2%
Vedanta Aluminium	(1,536)	588	(1,311)	(3,172)	(2,565)
% contribution	-4.3%	1.6%	-3.7%	-5.1%	-3.0%
Total	35,400	37,437	35,629	62,605	84,644
EPS (INR)	12.5	11.1	10.6	18.6	25.2

Source: Company data, Nomura estimates. EPS for previous years adjusted for 1:1 stock split and bonus

Valuation

Value emerges after recent volatility

Sterlite Industries has seen a series of negative news flows starting from concerns on account of Vedanta acquiring Cairn energy stakes and denial of the Niyamgiri bauxite mine to delay in power plants. We believe most of the negatives are priced in the stock price. The stock is trading at 6.3x FY13F consolidated EPS and 1.2x FY12F P/B, which is at a discount to peers' and historical (last 2-3 years) multiples.

We expect the outlook to improve going forward as: 1) the power business will start contributing to profits from FY12F onwards as coal linkage issues and evacuation problems are over; 2) even Vedanta Alumina's operations should show better earnings with stabilization of smelting and refining operations; and 3) acquisition of Anglo American's zinc assets will start contributing to bottom line in our view. We expect Sterlite to see consolidated earnings growth of 76.8% in FY12 and 35.2% in FY13 driven by acquisition of Anglo American's zinc assets and income from the power business.

While there has been a temporary setback in terms of deferral of VAL projects and denial of the bauxite mine, the long-term story of these projects remains intact in our view. With the execution problems in power business also getting solved, we believe the stock should see a positive turnaround and hence maintain a BUY on the stock with a target price of INR196.

We expect positive news flows to start going forward

Exhibit 10. Details on sum-of-parts valuation of Sterlite

Entity	Value of entity (INR mn)	Sterlite's Stake (%)	Discount (%)	Value to Sterlite's stake (INR mn)	Per share	Valuation methodology	% of value
Hindustan Zinc	548,156	64.9	0	355,753	106	10x FY13 earnings	54.1%
Balco	31,958	51	0	16,299	4.8	6x FY13 EV/EBITDA	2.5%
Vedanta Alumina	8,697	29.5	17	2,130	0.6	5x FY13 EV/EBITDA	0.3%
Sterlite core business	28,761	100	0	28,761	8.6	8x FY13E core earnings	4.4%
Cash and Equiv - including loans and advances to subsidiaries	98,265	100	0	98,265	29		14.9%
Anglo American's zinc assets	70,253	100	0	70,253	21	DCF at 13% cost of equity	10.7%
Sterlite energy	86,205	100	0	86,205	26	DCF at 13% cost of equity	13.1%
Total value				657,665	196		
Target price (INR)	196						

Source: Company data, Nomura estimates

Details on valuation

We value Sterlite on a sum-of-the-parts basis:

- We value Hindustan Zinc at 10x FY13F core earnings to arrive at a total valuation of INR548bn. Sterlite's 64.9% stake is valued at INR355.8bn, contributing INR106/share. HZ stakes contributes close to 55% of total value. The increase in HZ's valuation is primarily on account of faster ramp up of silver production and rollover to FY13F earnings.

Earlier we had valued the company at 10x FY12F core earnings and added the cash and equivalents of INR119bn to arrive at a value of INR486bn. It contributed INR94/share to the price target of Sterlite.

- We value Sterlite's core copper business at 8x FY13F core profits. It contributes INR8.6/share to our price target. Earlier, we had valued it at INR5.3/share. Increase in valuation is primarily on account of rollover of target price.
- Sterlite standalone at end-FY11F will have net cash and equivalents of INR98.2bn, contributing INR29/share to our price target. Our earlier estimate of cash and

We value Sterlite at INR 196/share on a sum-of-parts basis

equivalents for end-FY10F was INR174bn – which has come down due to acquisition of overseas zinc assets for US\$1.36bn.

- We have valued Sterlite Energy at a total equity value of INR86.2bn using DCF. Earlier, we had valued it at INR98.3bn. The lower valuation is primarily on account of: 1) higher coal cost; 2) lower PLF (from 94% earlier to 87% now); and 3) delay in the commissioning of power plants.
- We value Balco at 6x FY13F EV/EBITDA. Balco contributes INR4.8/share to our price target. We had earlier valued Balco at 6x FY12F EV/EBITDA.
- We value VAL at 5x FY13F EV/EBITDA. It contributes INR0.6/share to our price target. We have valued CWIP (capital work in progress) of INR 95bn at book value. The lower multiple for VAL is primarily on account of uncertainties associated with VAL operations.
- We have valued Anglo American's zinc assets at US\$1.56bn using DCF. See the section on these assets for more details.

Key investment risks

- Lower power rates: we are working with merchant power rates of INR4.5/KWH and INR4.4/KWH in FY12 and FY13; respectively. Should the rates come in weaker, there could be some downside to our estimates.
- Weaker-than-expected metal prices: we expect zinc prices to remain in the range of US\$2,200/t. However, if the zinc price weakens, there can be downside risk to our estimates.
- Foray into new fields: Sterlite's promoter — Vedanta Group — has shown its inclination to go for major acquisitions in new fields and channel them through its subsidiaries. While we believe these acquisitions will create value in the long term, there can be a short-term knee-jerk reaction to these deals. We believe given its history investors should be prepared for this risk.

Sensitivity analysis

Please see the table below for Sterlite's earning sensitivity to different metal/power rates in FY12F and FY13F:

Exhibit 11. Sensitivity analysis - EPS impact for FY12 and FY13

(INR/share)	FY12F	FY13F
Zinc prices - every US\$ 100/t change	0.75	0.75
Lead prices - every US\$ 100/t change	0.13	0.14
Merchant power rates- every INR 0.5/unit change	0.62	1.6
Aluminium prices - every US\$ 100/t change	0.28	0.28

Source: Company data, Nomura estimates

Exhibit 12. Relative valuation

Company Name	Ticker	Currency	Price (Local currency)	P/E (x) CY12F/ FY13F	P/B (x) CY12F/ FY13F	ROE (%) CY12F/ FY13F	Operating margin (%) CY12F/FY13F	EV/EBITDA CY12F/ FY13F
BHP BILLITON LTD	BHP AU	AUD	44	9.2	3.0	32.9	56.8	5.0
RIO TINTO LTD	RIO AU	AUD	81	8.2	1.7	21.2	48.5	4.4
SOUTHERN COPPER	SCCO US	USD	40	9.8	5.4	55.4	57.0	5.6
VALE SA-PF A	VALE5 BZ	BRL	47	6.3	1.3	20.9	60.0	4.7
GRUPO MEXICO-B	GMEXICOB IN	MXN	42	7.6	2.7	36.1	58.4	4.1
SESA GOA LTD	SESA IN	INR	261	5.4	1.1	20.9	49.0	4.5
VEDANTA RESOURCE	VED IN	GBP	22	2.6	0.9	33.2	38.6	2.2
HINDUSTAN ZINC	HZ IN	INR	127	9.9	1.7	16.9	65.0	6.5
STERLITE INDUSTR	STLT IN	INR	161	6.3	1.2	18.2	34.0	3.9
HINDALCO INDS	HNDL IN	INR	193	8.1	1.2	15.1	12.3	5.0
NATIONAL ALUMIN	NACL IN	INR	105	18.9	1.9	10.2	36.7	10.5

Note: prices as of 21 March, 2010

Source: Bloomberg, consensus estimates, Nomura estimates for HZ, STLT and NACL

Details of zinc assets acquired

Acquisition of zinc mines: fairly valued

Sterlite Industries completed the acquisition of zinc assets of Anglo American during Q4FY11. These consist of four mines - Skorpion, Lisheen, Black Mountain and Gamsberg. We believe this is a good acquisition as valuations are fair at current zinc prices and the assets will generate earnings from the start.

Apart from the valuation aspect with a US\$1.36bn investment in the acquisition, idle cash in the books of Sterlite will also come down which will likely reduce investor concerns on cash deployment. We value these assets at US\$1.56bn — slightly higher than the acquisition price of US\$1.36bn.

Earlier these assets were planned to be acquired by Hindustan Zinc. However due to delay in getting approval from the government of India (which holds 25% stake in HZ), the acquisition couldn't be carried through HZ.

Details of the four mining assets which are part of the acquisition are given below:

We have valued all the mines at zinc prices of US\$2,200/t and lead prices at US\$2,250/t.

1) Lisheen Mine – Ireland

- As per Brook Hunt estimates, total metal content will be close to 0.9mn tonnes- 0.8mn tonnes of zinc and 0.1mn tonnes of lead. Total cash cost of production of zinc is close to US\$1,200/tonne.
- Lisheen mine produced 147ktonnes of zinc and 19ktonnes of lead in 2009.
- Acquisition cost for the above mine is US\$546mn including cash of US\$275mn. Therefore the net acquisition cost of the mine is US\$271mn.
- We value Lisheen mine at US\$318mn using discounted cashflow.

Exhibit 13. Lisheen mine-key details

Production volume ('000 tonnes)	FY11F	FY12F	FY13F	FY14F	FY15F
Zinc	148	149	143	143	88
Lead	16	16	18	18	12
Silver (tonnes)	4	5	5	5	4
Revenues (US\$ mn)	365	369	359	382	240
Zinc cost/t (US\$)	1,307	1,209	1,171	1,347	1,366
Lead cost/t (US\$)	1,167	1,187	1,296	1,170	1,189
(US\$ mn)					
Total cost of production	212	200	191	214	136
EBITDA	153	169	168	167	104
depreciation	1	2	2	2	2
PBT	152	167	166	165	102
Taxes	46	50	50	50	31
PAT	106	117	116	116	71
Capex+ other expenditure	(4)	(3)	(2)	(2)	(2)
Tax	(46)	(50)	(50)	(50)	(31)
Net cash flow	103	116	116	116	71
DCF value (US\$ mn)	318				
Acquisition cost (US\$ mn)	271				

Source: Brook Hunt, Nomura estimates

Zinc assets acquired at fair value – a productive use of cash

2) Skorpion mine – Namibia

- This is an open pit mine with very low cost of production. As per Brook Hunt it has a stripping ratio of 6:1 and produces zinc at the cost of close to US\$ 700-800/t.
- As per Brook Hunt estimates, total reserves are 8mn tonnes with zinc content of 0.9mn tonnes.
- Skorpion mine produced 150ktonnes of zinc in 2009.
- Acquisition cost for the mine is US\$707mn.
- We value Skorpion mine at US\$729mn using DCF.

Apart from Gamsberg mine all mines have shorter mine lives

Exhibit 14. Skorpion mine-key details

Production volume ('000 tonnes)	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F
Zinc	155	152	152	151	151	92
Revenues (US\$ mn)	341	335	335	354	354	216
Zinc cost/t (US\$)	736	748	748	741	727	749
(US\$ mn)						
Total cost of production	114	114	114	112	110	69
EBITDA	235	228	228	250	252	152
depreciation	49	50	50	50	50	25
PBT	186	178	178	200	202	127
Taxes	9	9	18	20	20	13
PAT	177	169	161	180	182	114
Capex+ other expenditure	(3)	(2)	(2)	(2)	(2)	(2)
Tax	(9)	(9)	(18)	(20)	(20)	(13)
Net cash flow	223	217	209	228	230	137
DCF value (US\$ mn)	729					
Acquisition cost (US\$ mn)	707					

Source: Brook Hunt, Nomura estimates

3) Black Mountain Mining – 74% stake [South Africa]

- Black mountain mining consists of two projects: 1) Black Mountain mine; and 2) Gamsberg Project. Anglo American holds a 74% stake in the projects while the remaining 26% is held by Exxaro resources (EXX SJ, Not rated).

Black Mountain Mine

- Black Mountain Mine has total reserves of 32mn tonnes containing 1.5% zinc and 2.9% lead.
- It produced 24ktonnes of zinc and 47ktonnes of lead in 2009. Total revenues (share of Anglo American) were US\$115mn and EBITDA of US\$35mn.
- We value Black Mountain Mine at US\$ 400mn – Sterlite's share of 74% is valued at US\$ 296mn.

Exhibit 15. Black mountain mine-key details

Production volume ('000 tonnes)	FY11F	FY12F	FY13F	FY14F	FY15F	FY16F	FY17F
Cu('000tonnes)	2.6	3.5	7.4	6.8	7.6	5.5	5.5
Pb('000tonnes)	52.3	38.9	32.1	31.6	32.9	32.5	32.5
Zn('000tonnes)	26.3	30.0	32.6	29.5	33.6	31.4	31.4
Ag(tonnes)	58.2	46.5	42.0	42.4	42.5	41.4	39.0
Revenues (US\$ mn)	246	223	247	238	262	234	232
Zinc cost/t (US\$)	1,464	1,411	1,244	1,823	1,748	1,779	1,785
Lead cost/t (US\$)	1,233	1,315	1,287	1,561	1,479	1,514	1,522
(US\$ mn)							
Total cost of production	103	93	82	103	107	105	105
EBITDA	143	130	165	135	155	129	127
depreciation	11	11	11	11	11	11	11
PBT	132	119	154	124	144	118	116
Taxes	40	36	46	37	43	35	35
PAT	92	83	108	87	100	83	81
Capex+ other expenditure	(5)	(5)	(1)	(1)	(1)	(1)	(1)
Tax	(40)	(36)	(46)	(37)	(43)	(35)	(35)
Net cash flow	98	89	118	97	110	93	91
DCF value (US\$ mn)	400						
Value of Sterlite stake (US\$ mn)	296						

Source: Brook Hunt, Nomura estimates

Gamsberg mine

- Gamsberg mine is the largest mine among the above with total resources of 187mn tonnes containing 6.9% zinc. However, the mine is still in the development stage and management has guided for production to start from 2014 (in line with Brook Hunt estimates).
- It will have a cash cost of close to US\$1,300-1,400/t. Gamsberg mine will have a stripping ratio of more than 10:1, as per Brook Hunt.
- Sterlite plans to spend US\$2bn in capex over next two years to develop the mine, as per management.
- We value Gamsberg mine at US\$295mn and Sterlite's stake of 74% at US\$218mn.

Exhibit 16. Gamsberg mine-key details

Production volume ('000 tonnes)	FY12F	FY13F	FY14F	FY15F	FY16F	FY17F
Pb('000tonnes)			19.5	22.5	26.9	32.2
Zn('000tonnes)			206.6	238.7	284.6	355.7
Revenues (US\$ mn)			529	614	732	912
Zinc cost/t (US\$)			1,433	1,389	1,366	1,366
Lead cost/t (US\$)			1,322	1,300	1,300	1,300
(US\$ mn)						
Total cost of production			322	361	424	528
EBITDA			208	253	308	384
depreciation			80	80	80	100
PBT			128	173	228	284
Taxes			38	52	68	85
PAT			89	121	160	199
Capex+ other expenditure	(500)	(500)	(1,000)	(50)	(50)	(50)
Tax	-	-	(38)	(52)	(68)	(85)
Net cash flow	(500)	(500)	(831)	151	190	249
DCF value (US\$ mn)	295					
Value of Sterlite stake (US\$ mn)	218					

Source: Brook Hunt, Nomura estimates

So overall we have valued Sterlite's stake in Black Mountain (both the mines) at US\$514mn against total acquisition cost of US\$348mn.

Financial statements

Income statement (Rsmn)					
Year-end 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
Revenue	211,442	244,103	274,675	399,976	463,090
Cost of goods sold	(171,408)	(190,884)	(219,421)	(294,631)	(327,227)
Gross profit	40,035	53,220	55,255	105,345	135,863
SG&A					
Employee share expense					
Operating profit	40,035	53,220	55,255	105,345	135,863
EBITDA	47,041	60,718	65,300	123,043	157,553
Depreciation	(7,007)	(7,498)	(10,046)	(17,698)	(21,690)
Amortisation					
EBIT	40,035	53,220	55,255	105,345	135,863
Net interest expense	(3,973)	(3,424)	(12,448)	(14,966)	(16,407)
Associates & JCEs	(1,536)	588	(1,311)	(3,172)	(2,565)
Other income	21,543	19,594	22,493	21,019	22,069
Earnings before tax	56,069	69,978	63,989	108,225	138,960
Income tax	(8,550)	(12,330)	(11,670)	(24,920)	(32,162)
Net profit after tax	47,518	57,648	52,319	83,305	106,798
Minority interests	(12,671)	(17,241)	(16,902)	(20,700)	(22,154)
Other items	-	-	-	-	-
Preferred dividends					
Normalised NPAT	34,847	40,407	35,417	62,605	84,644
Extraordinary items	553	(2,970)	212	-	-
Reported NPAT	35,400	37,437	35,629	62,605	84,644
Dividends	(2,901)	(4,210)	(3,933)	(3,933)	(3,933)
Transfer to reserves	32,499	33,227	31,696	58,672	80,711

We expect power capacity and overseas zinc assets to drive earnings growth

Valuation and ratio analysis

FD normalised P/E (x)	3.3	3.3	15.2	8.6	6.3
FD normalised P/E at price target (x)	4.0	4.1	18.6	10.5	7.8
Reported P/E (x)	3.2	3.6	15.1	8.6	6.3
Dividend yield (%)	2.6	3.1	0.7	0.7	0.7
Price/cashflow (x)	2.1	na	10.8	6.8	5.0
Price/book (x)	0.4	0.4	1.3	1.2	1.1
EV/EBITDA (x)	12.1	9.7	9.3	5.2	3.9
EV/EBIT (x)	14.3	11.1	11.0	6.1	4.5
Gross margin (%)	18.9	21.8	20.1	26.3	29.3
EBITDA margin (%)	22.2	24.9	23.8	30.8	34.0
EBIT margin (%)	18.9	21.8	20.1	26.3	29.3
Net margin (%)	16.7	15.3	13.0	15.7	18.3
Effective tax rate (%)	15.2	17.6	18.2	23.0	23.1
Dividend payout (%)	8.2	11.2	11.0	6.3	4.6
Capex to sales (%)	25.3	28.3	9.4	10.8	7.2
Capex to depreciation (x)	7.6	9.2	2.6	2.4	1.5
ROE (%)	14.8	12.0	9.2	14.8	18.2
ROA (pretax %)	10.1	11.1	9.0	15.5	18.2

Growth (%)

Revenue	(14.4)	15.4	12.5	45.6	15.8
EBITDA	(40.2)	29.1	7.5	88.4	28.0
EBIT	(45.0)	32.9	3.8	90.7	29.0
Normalised EPS	(23.6)	(2.2)	(78.1)	76.8	35.2
Normalised FDEPS	(23.6)	(2.2)	(78.1)	76.8	35.2

Per share

Reported EPS (Rs)	50.0	44.5	10.6	18.6	25.2
Norm EPS (Rs)	49.2	48.1	10.5	18.6	25.2
Fully diluted norm EPS (Rs)	49.2	48.1	10.5	18.6	25.2
Book value per share (Rs)	361.5	440.4	120.4	132.1	144.7
DPS (Rs)	4.1	5.0	1.2	1.2	1.2

Source: Nomura estimates

Cashflow (Rsmn)

Year-end 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
EBITDA	47,041	60,718	65,300	123,043	157,553
Change in working capital	12,437	(73,157)	3,942	(1,753)	224
Other operating cashflow	(4,635)	(15,782)	(19,626)	(42,740)	(51,219)
Cashflow from operations	54,844	(28,222)	49,616	78,549	106,558
Capital expenditure	(53,403)	(68,980)	(25,787)	(43,265)	(33,265)
Free cashflow	1,441	(97,202)	23,829	35,285	73,294
Reduction in investments	879	(40,983)	(32,104)	(50,000)	(30,000)
Net acquisitions	-	-	-	-	-
Reduction in other LT assets	-	-	-	-	-
Addition in other LT liabilities	539	1,449	(3,304)	-	-
Adjustments	-	-	-	-	-
Cashflow after investing acts	2,860	(136,737)	(11,579)	(14,715)	43,294
Cash dividends	(2,042)	(3,021)	(3,021)	(3,021)	(3,021)
Equity issue	-	76,529	-	-	-
Debt issue	19,390	22,465	(4,764)	35,994	234
Convertible debt issue	-	-	-	-	-
Others	10,305	19,093	18,582	(8,292)	(25,711)
Cashflow from financial acts	27,653	115,066	10,798	24,681	(28,498)
Net cashflow	30,513	(21,671)	(781)	9,966	14,796
Beginning cash	24,536	55,048	33,378	32,597	42,563
Ending cash	55,048	33,378	32,596	42,563	57,359
Ending net debt	15,087	59,222	55,239	81,267	66,705

Source: Nomura estimates

Balance sheet (Rsmn)

As at 31 Mar	FY09	FY10	FY11F	FY12F	FY13F
Cash & equivalents	55,048	33,378	32,597	42,563	57,359
Marketable securities	-	-	-	-	-
Accounts receivable	8,760	5,709	8,228	9,811	10,595
Inventories	24,591	29,827	34,165	40,037	43,823
Other current assets	27,961	106,200	90,888	92,150	93,900
Total current assets	116,360	175,114	165,878	184,561	205,677
LT investments	162,062	203,045	235,148	285,148	315,148
Fixed assets	172,104	233,500	246,349	278,591	296,880
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other LT assets	-	-	-	-	-
Total assets	450,526	611,659	647,376	748,300	817,706
Short-term debt	-	-	-	-	-
Accounts payable	31,655	38,107	32,844	38,180	43,920
Other current liabilities	10,397	11,212	11,961	13,589	14,394
Total current liabilities	42,051	49,319	44,806	51,769	58,313
Long-term debt	70,135	92,600	87,836	123,830	124,064
Convertible debt	-	-	-	-	-
Other LT liabilities	14,076	15,524	12,220	12,220	12,220
Total liabilities	126,262	157,443	144,862	187,819	194,598
Minority interest	68,132	84,096	97,831	116,401	136,678
Preferred stock	-	-	-	-	-
Common stock	1,417	1,681	3,362	3,362	3,362
Retained earnings	56,069	69,978	63,989	108,225	138,960
Proposed dividends	-	-	-	-	-
Other equity and reserves	198,646	298,462	337,333	332,493	344,108
Total shareholders' equity	256,132	370,120	404,683	444,080	486,430
Total equity & liabilities	450,526	611,659	647,376	748,300	817,706

Liquidity (x)

Current ratio	2.77	3.55	3.70	3.57	3.53
Interest cover	10.1	15.5	4.4	7.0	8.3

Leverage

Net debt/EBITDA (x)	0.32	0.98	0.85	0.66	0.42
Net debt/equity (%)	5.9	16.0	13.7	18.3	13.7

Activity (days)

Days receivable	21.0	10.8	9.3	8.3	8.0
Days inventory	61.6	52.0	53.2	46.1	46.8
Days payable	54.9	66.7	59.0	44.1	45.8
Cash cycle	27.7	(3.9)	3.5	10.2	9.0

Source: Nomura estimates

Any Authors named on this report are Research Analysts unless otherwise indicated

Analyst Certification

We, Alok Kumar Nemani and Prabhat Awasthi, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Hindustan Zinc	HZ IN	126.25 INR	21-Mar-2011	Neutral	Not Rated	
Sterlite Industries India Ltd	STLT IN	159.90 INR	21-Mar-2011	Buy	Not Rated	

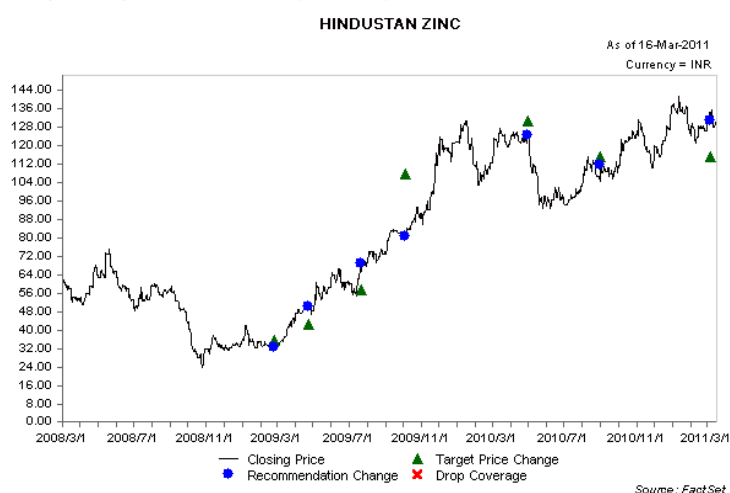
Previous Rating

Issuer name	Previous Rating	Date of change
Hindustan Zinc	Buy	30-Apr-2010
Sterlite Industries India Ltd	Neutral	01-Sep-2010

Hindustan Zinc (HZ IN)

126.25 INR (21-Mar-2011) Neutral (Sector rating: Not Rated)

Rating and target price chart (three year history)



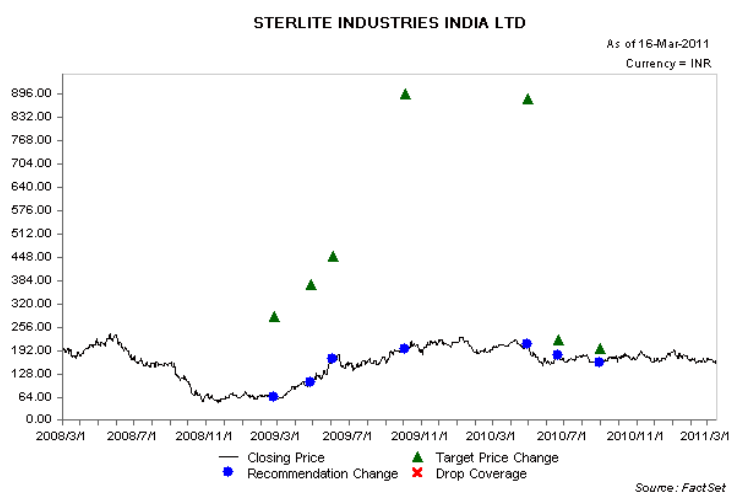
Date	Rating	Target price	Closing price
07-Mar-2011		115.00	130.75
01-Sep-2010		115.00	111.39
30-Apr-2010		130.30	124.08
30-Apr-2010	Neutral		124.08
06-Oct-2009		107.40	80.48
06-Oct-2009	Buy		80.48
23-Jul-2009		57.40	68.52
23-Apr-2009		42.20	49.99
23-Apr-2009	Reduce		49.99
25-Feb-2009		35.50	32.09
25-Feb-2009	Neutral		32.09

For explanation of ratings refer to the stock rating keys located after chart(s)

Sterlite Industries India Ltd (STLT IN)

159.90 INR (21-Mar-2011) Buy (Sector rating: Not Rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
01-Sep-2010		199.00	156.55
01-Sep-2010	Buy		156.55
22-Jun-2010		221.00	178.75
30-Apr-2010		884.00	207.11
30-Apr-2010	Neutral		207.11
06-Oct-2009		897.00	193.29
06-Oct-2009	Buy		193.29
05-Jun-2009		451.00	168.05
05-Jun-2009	Reduce		168.05
29-Apr-2009		373.00	102.26
25-Feb-2009		285.00	61.79
25-Feb-2009	Neutral		61.79

For explanation of ratings refer to the stock rating keys located after chart(s)

Important Disclosures

Online availability of research and additional conflict-of-interest disclosures

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As at 31 December 2010.

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A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.

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SECTORS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A **'Strong buy'** recommendation indicates that upside is more than 20%.

A **'Buy'** recommendation indicates that upside is between 10% and 20%.

A **'Neutral'** recommendation indicates that upside or downside is less than 10%.

A **'Reduce'** recommendation indicates that downside is between 10% and 20%.

A **'Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

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