



## Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,330	JPA IN
	REUTERS CODE
S&P CNX: 2,846	JAIA.BO

19 January 2009

Buy

Previous Recommendation: Buy

Rs69

Equity Shares (m)	1,187.3
52-Week Range	425/47
1,6,12 Rel. Perf. (%)	-15/-25/-33
M.Cap. (Rs b)	82.2
M.Cap. (US\$ b)	1.7

YEAR	NET SALES	PAT	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	34,639	4,149	3.8	48.9	18.3	2.6	14.9	10.8	3.4	13.3
3/08A	39,670	6,097	5.2	37.5	13.3	1.8	16.3	10.6	3.7	13.6
3/09E	51,879	7,112	6.0	15.1	11.6	1.5	14.3	9.8	3.0	11.9
3/10E	76,366	9,044	7.6	27.2	9.1	1.4	15.9	12.1	2.2	8.9

\* Fully Diluted

- 3QFY09 operational results below estimates; impacted by one-offs:** During 3QFY09, JPA reported revenues of Rs13.2b (up 46.9% YoY), EBIDTA of Rs2.5b (up 10.9% YoY) and net profit of Rs1.7b (up 6% YoY). Operating performance has been impacted due to higher staff cost at Rs1.2b in 3QFY09 on account of severance pay given to employees on completion of Baglihar hydro power project in J&K (Rs450m). Adjusted for this, the net profit stood at Rs2.2b (up 35% YoY), which includes dividend income of Rs665m in 3QFY09 from its hydro power subsidiaries.
- Segmental performance:** E&C business recorded higher revenue of Rs7.5b (up 70.8% YoY) and EBIT stood at Rs919m (up 41.4% YoY). Adjusting for one-time severance payment to employees of Rs450m, the EBIT stood at Rs1.5b, entailing EBIT margins of 19.4%, vs reported EBIT margin of 12.2%. Cement revenues stood at Rs5.8b, up 15.2% YoY, driven by volume growth of 20.8% YoY and realization decline of 4.6% YoY. EBIT for the cement division stood at Rs1.55b (down 6.5% YoY), leading to EBIT of Rs780/ton in 3QFY09 (vs Rs1,007/ton in 3QFY08).
- Progress on cement capacity addition, RE projects:** JPA has commissioned 2m ton of cement capacity at Siddhi, Madhya Pradesh in 3QFY09, while management expects to commission 2.5m ton of UP Cement unit by FY09 end. In FY10, we expect JPA to add HP Cement (3.5m ton), HP Chamba (2.5m ton) and Bhilai JV with SAIL (2.2m ton). On real estate front, JPA booked revenues of Rs664m in 3QFY09 (vs Rs266m in 2QFY09). Till YTD Dec-08, the company has pre-sold 4.7m sq.ft of area at NOIDA at an average realization of Rs5,600/sq.ft.
- Valuations and view:** We expect JPA to report net profit of Rs7.1b (up 16.6% YoY) and Rs9b in FY10 (up 27.2% YoY). Based on SOTP methodology, we arrive at price target of Rs106/sh. At CMP of Rs69, JPA trades at PER of 11.6x FY09E and 9.1x FY10E. Maintain **Buy**.

### QUARTERLY PERFORMANCE

YEAR ENDED MARCH	(Rs Million)								FY08	FY09E
	FY08				FY09					
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Sales</b>	<b>9,270</b>	<b>8,620</b>	<b>9,000</b>	<b>12,780</b>	<b>11,487</b>	<b>11,825</b>	<b>13,217</b>	<b>15,350</b>	<b>39,670</b>	<b>51,879</b>
Change (%)	3.6	11.9	1.0	44.2	23.9	37.2	46.9	20.1	15.3	30.8
<b>EBITDA</b>	<b>2,390</b>	<b>2,210</b>	<b>2,230</b>	<b>3,956</b>	<b>3,123</b>	<b>3,477</b>	<b>2,473</b>	<b>4,031</b>	<b>10,786</b>	<b>13,103</b>
Change (%)	12.2	11.6	-3.5	50.4	30.6	57.3	10.9	1.9	19.3	21.5
As of % Sales	25.8	25.6	24.8	31.0	27.2	29.4	18.7	26.3	27.2	25.3
Depreciation	450	460	510	610	622	667	646	783	2,030	2,717
Interest	790	840	790	972	984	1,008	992	1,258	3,392	4,241
Other Income	780	600	1,020	669	394	1,040	1,254	767	3,069	3,455
Extra-ordinary income	0	0	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>1,930</b>	<b>1,510</b>	<b>1,950</b>	<b>3,043</b>	<b>1,911</b>	<b>2,843</b>	<b>2,089</b>	<b>2,757</b>	<b>8,433</b>	<b>9,600</b>
Tax	530	470	390	946	639	812	434	1,053	2,336	2,938
Effective Tax Rate (%)	27.5	31.1	20.0	31.1	33.4	28.6	20.8	38.2	27.7	30.6
<b>Reported PAT</b>	<b>1,400</b>	<b>1,040</b>	<b>1,560</b>	<b>2,097</b>	<b>1,273</b>	<b>2,030</b>	<b>1,655</b>	<b>1,704</b>	<b>6,097</b>	<b>6,662</b>
<b>Adj PAT</b>	<b>1,400</b>	<b>1,040</b>	<b>1,560</b>	<b>2,097</b>	<b>1,273</b>	<b>2,030</b>	<b>2,105</b>	<b>1,704</b>	<b>6,097</b>	<b>7,112</b>
Change (%)	52.2	15.6	52.9	60.1	-9.1	95.2	34.9	-18.7	46.9	16.6

E: MOSL Estimates

Cement volume grew by 20.8%, while realization dip by 4.6% YoY. EBIT/ton stood at Rs780/ton vs Rs1,007/ton in 3QFY08

## CEMENT DIVISION PERFORMANCE (RS M)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	CHG YOY (%)
Volumes (m ton)	1.67	1.48	1.65	1.97	1.85	1.65	1.99	20.8
Revenues (Rs m)	5,170	4,560	5,010	5,950	5,827	5,209	5,773	15.2
Realization (Rs/t)	3,096	3,075	3,040	3,022	3,150	3,157	2,901	-4.6
EBIT (Rs m)	1,740	1,420	1,660	2,100	1,796	1,315	1,552	-6.5
EBIT (Rs/t)	1,042	958	1,007	1,067	971	797	780	-22.6

Source: Company/Motilal Oswal Securities

E&C division margins were impacted by Rs450m of severance pay...adjusted for this, EBIT margins stood at 18.2%

## ENGINEERING DIVISION PERFORMANCE (RS M)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	CHG YOY (%)
Revenues (Rs m)	4,480	4,320	4,400	4,750	5,246	6,584	7,517	70.8
EBIT (Rs m)	860	860	650	1,220	1,102	2,055	919	41.4
<b>EBIT (%)</b>	<b>19.2</b>	<b>19.9</b>	<b>14.8</b>	<b>25.7</b>	<b>21.0</b>	<b>31.2</b>	<b>12.2</b>	-

Source: Company/Motilal Oswal Securities

Till YTD Dec-08, RE revenues stood at Rs645m vs Rs2.6b in FY08. We estimate RE revenues for FY09 at Rs3b

## REAL ESTATE BUSINESS PERFORMANCE (RS M)

	4QFY08	1QFY09	2QFY09	3QFY09
Revenues (Rs m)	2,560	748	266	664
EBIT (Rs m)	810	273	100	272
<b>EBIT (%)</b>	<b>31.6</b>	<b>36.4</b>	<b>37.6</b>	<b>41.0</b>

Source: Company/Motilal Oswal Securities

Till YTD Dec-08, the company has pre-sold 4.7m sq.ft of area at NOIDA at an average realization of Rs5,600/sq.ft. and has received customer advances of Rs10b

## NOIDA RE DEVELOPMENT: ENCOURAGING RESPONSE, WITH BOOKINGS OF 4.7MSF IN YTD FY09

	MAR-08	JUNE-08	SEP-08	DEC-08
Pre Sales (Rs m)	15,500	22,550	24,000	26,300
Advances Received (Rs m)	2,960	4,000-4,500	7,500	10,000
Realizations (Rs/Sq ft)	6,055	5,500	6,000	5,600
Sales (msf)	2.6	4.1	4.1	4.7

Source: Company

JPA has commissioned 2m ton of cement capacity at Siddhi, Madhya Pradesh in 3QFY09, while management expects to further commission 2.5m ton of UP Cement unit by FY09 end.

## CEMENT CAPACITY COMMISSIONING SCHEDULE (M TON)

	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Rewa Cement	7.0	7.0	7.0	7.0	7.0	7.0
Himachal Pradesh	-	1.5	1.5	5.0	5.0	5.0
UP Cement	-	0.5	3.0	3.0	3.0	3.0
Guj. Angan cement	-	-	-	-	6.4	6.4
Jaypee Sidhi Cement	-	-	2.0	2.0	2.0	2.0
Himachal Pradesh, Chamba	-	-	2.5	2.5	2.5	2.5
SAIL Bhilai JV	-	-	-	2.2	2.2	2.2
Gujarat Jaypee Cement	-	-	-	-	2.4	2.4
SAIL Bokaro JV	-	-	-	-	-	2.0
GMDC JV	-	-	-	-	-	2.4
<b>Total Capacity</b>	<b>7.0</b>	<b>9.0</b>	<b>13.5</b>	<b>21.7</b>	<b>30.5</b>	<b>34.9</b>
<b>Capacity (JAL's share)</b>	<b>7.0</b>	<b>9.0</b>	<b>13.5</b>	<b>21.1</b>	<b>29.9</b>	<b>32.7</b>

Source: Company

In FY10, we expect JPA to add HP Cement (3.5m ton), HP Chamba (2.5m ton) and Bhilai JV with SAIL (2.2m ton)

## EARNINGS CAGR OF 22% TILL FY10 (SEGMENTAL PERFORMANCE, RS M)

REVENUES	FY07	FY08	FY09E	FY10E
Construction	16,107	17,302	27,475	38,335
% to Total	46.5	43.4	50.1	48.3
Growth (%)	-16.1	7.4	58.8	39.5
Cement	18,314	19,504	24,082	34,694
% to Total	52.9	48.9	43.9	43.7
Growth (%)	50.0	6.5	23.5	44.1
Hospitality	218	306	321	337
% to Total	0.6	0.8	0.6	0.4
Growth (%)	19.5	40.5	5.0	5.0
Real Estate	-	2,558	3,000	6,000
% to Total	-	6.4	5.5	7.6
Growth (%)	-	5.0	5.0	6.0
<b>Total</b>	<b>34,639</b>	<b>39,851</b>	<b>54,879</b>	<b>79,366</b>
<b>EBIT</b>				
Construction	3,520	3,590	5,338	7,810
Margin (%)	21.9	20.7	19.4	20.4
Cement	5,700	6,920	6,593	8,240
Margin (%)	31.1	35.5	27.4	23.8
Hospitality	40	32	34	36
Margin (%)	18.4	10.5	10.5	10.6
Real Estate	-	810	1,050	2,100
Margin (%)	-	31.7	35.0	35.0
BOT Dividend	-	1,123	1,384	1,384
Unallocated	20.0	128.0	-558.0	-529.0
<b>Total</b>	<b>9,280</b>	<b>12,603</b>	<b>13,841</b>	<b>19,041</b>

Source: MOSL

## JAIPRAKASH ASSOCIATES: SUM OF PARTS VALUATION (CONSERVATIVE CASE)

STANDALONE BUSINESS	BUSINESS SEGMENT	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
E&C Business	Construction	FY09 EV/EBIT	6	32,030	27	At par with Industry Average
Cement Business	Cement	FY09 EV/EBIDTA	4	65,033	55	At par with Industry Average
Coal Mining	Mining	Reserve/ton (US\$)		8,100	7	180m ton Mandala mine allotted in MP
Cash		Book Value		18,154	15	Book value FY08
<b>Firm Value</b>				<b>123,317</b>	<b>104</b>	
Debt		Book Value		83,056	70	
<b>Equity Value</b>				<b>40,261</b>	<b>34</b>	
<b>Valuation of BOT Projects</b>						
Jaiprakash Hydro	Hydro Power	Mkt Price (Rs/sh)	25	7,697	6	Based on 25% discount to current price
Jaiprakash Power Ventures Ltd.	Hydro Power	NPV of project development		14,414	12	At 40% discount to NPV of project development
Jaypee Karcham Hydro Corp Ltd.	Hydro Power	P/BV	1	7,500	6	Expected RoE = 22-24%, given 20% power on merchant basis
<b>Total</b>				<b>33,276</b>	<b>25</b>	
<b>Valuation of Taj Expressway</b>						
Jaypee Greens	Real Estate	NPV of project development		8,522	7	Based on 30 % discount NPV of proj. dev., as 30% of the proj. sold till Mar-08
Taj Expressway	Road Development	NPV of project development		-20,044	-16	
	Real Estate	NPV of project development		67,063	56	50% discount to NAV
<b>Consolidated Equity Value*</b>				<b>129,079</b>	<b>106</b>	

\* Ignoring value of 10m ton cement capacity commissioning post FY09, Ganga Expressway and Formula 1 project

Source: MOSL

## Jaiprakash Associates: an investment profile

### Company description

Jaiprakash is a diversified conglomerate with interests in five business segments: E&C (mainly hydro power construction), hydro-power generation, cement, real estate and hospitality industry. It has a niche positioning in India's hydro power segment, executing contracts in 54% of hydro power capacity during the Tenth Plan. The company has operational power projects of 700 MW while it is working on power projects of 4,920MW.

### Key investment arguments

- ✍ Best positioned to capture increasing hydro-power investments in India; executing contracts in 54% of hydro power capacity during the Tenth Plan. Strong E&C order book provides revenue visibility beyond FY10.
- ✍ Cement capacity to be enhanced to 20m+ tons by March 10, driven by Himachal (5m ton), UP Cement (3m ton), Siddhi Cement (2m ton) and Himachal Chamba unit (2.5m ton), 2.2m ton through JV (with SAIL).
- ✍ JAL has a hydro power BOOT portfolio of 1,700MW. It is further developing 2,100MW of hydro power projects on a BOOT basis from the government of Arunachal Pradesh. It is also developing 2,000MW thermal power project in Madhya Pradesh and Uttar Pradesh.

### Key investment risks

- ✍ Increased competition in E&C may put pressure on operating margins.
- ✍ BOT projects depress initial RoE.
- ✍ Hydro-power generation is not predictable.

### Recent developments

- ✍ Jaiprakash Associates has approved amalgamation of Jaypee Cement Ltd (JCL), Gujarat Anjan Cement Ltd (GACL), Jaypee Hotels Ltd (JHL) and Jaiprakash Enterprises Ltd (JEL) with itself.

### Valuations and view

- ✍ JPA trades at PER of 11.6x FY09E and 9.1x FY10E.
- ✍ Maintain **Buy** with SOTP price target of Rs106/sh.

### Sector view

- ✍ We are positive on the prospects of increased investments in hydro power construction over the next 5 years.
- ✍ In near term, cement sector will continue to show impressive profitability.
- ✍ BOT ventures could unlock sizable value.

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	6.0	5.7	6.0
FY10	7.6	7.4	2.8

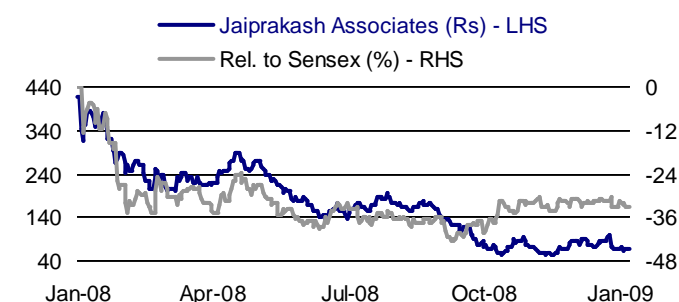
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
69	106	53.2	Buy

SHAREHOLDING PATTERN (%)

	DEC-08	SEP-08	DEC-07
Promoter	45.3	44.4	45.0
Domestic Inst	12.7	13.0	10.8
Foreign	23.8	23.7	31.0
Others	18.2	18.9	13.2

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				
(Rs Million)				
Y/E MARCH	2007	2008	2009E	2010E
<b>Net Sales</b>	<b>34,639</b>	<b>39,670</b>	<b>51,879</b>	<b>76,366</b>
Change (%)	9.6	14.5	30.8	47.2
Cons. & Manufact. Expen.	17,612	19,562	27,829	45,806
Employees' Remuneration and W	1,611	2,553	3,319	3,817
Selling & Distribution Expenses	3,451	3,689	4,058	4,464
Other Expenses	2,708	3,080	3,569	3,250
<b>EBITDA</b>	<b>9,257</b>	<b>10,786</b>	<b>13,103</b>	<b>19,029</b>
% of Net Sales	26.7	27.2	25.3	24.9
Depreciation	1,631	2,030	2,717	3,761
Interest	2,573	3,392	4,241	5,308
Other Income	1,145	3,069	3,455	3,772
<b>PBT</b>	<b>6,199</b>	<b>8,433</b>	<b>9,600</b>	<b>13,733</b>
Tax	2,050	2,336	2,938	4,689
Rate (%)	33.1	27.7	30.6	34.1
<b>Reported PAT</b>	<b>4,149</b>	<b>6,097</b>	<b>6,662</b>	<b>9,044</b>
Extra-ord. Inc. (net of expenses)	0	0	-450	0
<b>Adjusted PAT</b>	<b>4,149</b>	<b>6,097</b>	<b>7,112</b>	<b>9,044</b>
Change (%)	48.9	47.0	16.6	27.2

\* Excl Real Estate

BALANCE SHEET				
(Rs Million)				
Y/E MARCH	2007	2008	2009E	2010E
Share Capital	2,192	2,343	2,375	2,375
Equity warrants	0	3,985	1,613	1,613
Reserves	26,537	39,652	49,229	56,211
<b>Net Worth</b>	<b>28,730</b>	<b>45,980</b>	<b>53,216</b>	<b>60,198</b>
Loans	55,158	83,056	87,895	102,278
Deferred Tax Liability	4,994	5,597	5,847	6,347
<b>Capital Employed</b>	<b>88,975</b>	<b>134,633</b>	<b>146,958</b>	<b>168,824</b>
Gross Fixed Assets	42,018	51,662	77,633	91,723
Less: Depreciation	12,800	14,548	17,265	21,026
<b>Net Fixed Assets</b>	<b>29,219</b>	<b>37,115</b>	<b>60,368</b>	<b>70,698</b>
Capital WIP	22,281	42,190	35,755	42,444
Investments	17,787	32,248	34,495	36,723
<b>Curr. Assets</b>	<b>42,575</b>	<b>59,631</b>	<b>66,815</b>	<b>85,088</b>
Inventory	12,646	13,076	16,581	23,784
Debtors	4,521	5,862	7,666	11,285
Cash & Bank Balance	14,298	18,154	13,951	14,728
Loans & Advances	10,985	22,219	28,297	34,972
Other Current Assets	125	320	320	320
<b>Current Liab. &amp; Prov.</b>	<b>22,889</b>	<b>36,552</b>	<b>50,476</b>	<b>66,128</b>
Creditors	4,832	7,010	9,820	13,909
Other Liabilities	15,110	26,481	36,656	47,720
Provisions	2,947	3,061	4,000	4,500
<b>Net Current Assets</b>	<b>19,687</b>	<b>23,079</b>	<b>16,340</b>	<b>18,959</b>
<b>Application of Funds</b>	<b>88,975</b>	<b>134,633</b>	<b>146,958</b>	<b>168,824</b>

E: MOSL Estimates

RATIOS				
Y/E MARCH	2007	2008	2009E	2010E
<b>Basic (Rs)</b>				
<b>Adjusted EPS</b>	<b>3.8</b>	<b>5.2</b>	<b>6.0</b>	<b>7.6</b>
Growth (%)	48.9	37.5	15.1	27.2
<b>Consolidated EPS</b>	<b>25.2</b>	<b>36.7</b>	<b>37.7</b>	<b>47.7</b>
Growth (%)	65.3	45.6	2.6	26.6
Cash EPS	5.3	6.9	8.3	10.8
Book Value	26.2	39.2	44.8	50.7
DPS	0.7	1.0	1.2	1.5
Payout (incl. Div. Tax.)	21.9	22.0	24.3	22.8
<b>Valuation (x)</b>				
P/E (standalone)	18.3	13.3	11.6	9.1
P/E (consolidated)	2.7	1.9	1.8	1.5
Cash P/E	13.1	10.0	8.4	6.4
EV/EBITDA	12.6	13.5	11.9	8.9
EV/Sales	3.4	3.7	3.0	2.2
Price/Book Value	2.6	1.8	1.5	1.4
Dividend Yield (%)	1.0	1.4	1.7	2.2
<b>Profitability Ratios (%)</b>				
RoE	14.9	16.3	14.3	15.9
RoCE	10.8	10.6	9.8	12.1
<b>Turnover Ratios</b>				
Debtors (Days)	48	54	54	54
Asset Turnover (x)	0.4	0.4	0.4	0.5
<b>Leverage Ratio</b>				
Debt/Equity (x)	1.9	1.8	1.7	1.7

CASH FLOW STATEMENT				
(Rs Million)				
Y/E MARCH	2007	2008	2009E	2010E
PBT before Extraordinary Items	<b>6,199</b>	<b>8,433</b>	<b>9,600</b>	<b>13,733</b>
Add : Depreciation	1,631	2,030	2,717	3,761
Interest	2,573	3,392	4,241	5,308
Less : Direct Taxes Paid	2,050	2,336	2,938	4,689
(Inc)/Dec in WC	2,847	369	2,536	-1,842
<b>CF from Operations</b>	<b>11,199</b>	<b>11,889</b>	<b>16,156</b>	<b>16,271</b>
(Inc)/Dec in FA	-19,693	-29,835	-19,536	-20,779
(Pur)/Sale of Investments	-2,217	-14,461	-2,247	-2,228
<b>CF from Investments</b>	<b>-21,911</b>	<b>-44,295</b>	<b>-21,783</b>	<b>-23,007</b>
(Inc)/Dec in Networth	-1,166	13,097	2,447	500
(Inc)/Dec in Debt	12,960	27,898	4,839	14,383
Less : Interest Paid	2,573	3,392	4,241	5,308
Dividend Paid	909	1,341	1,622	2,062
<b>CF from Fin. Activity</b>	<b>8,312</b>	<b>36,262</b>	<b>1,423</b>	<b>7,513</b>
<b>Inc/Dec of Cash</b>	<b>-2,400</b>	<b>3,856</b>	<b>-4,203</b>	<b>777</b>
Add: Beginning Balance	16,698	14,298	18,154	13,951
<b>Closing Balance</b>	<b>14,298</b>	<b>18,154</b>	<b>13,951</b>	<b>14,728</b>



For more copies or other information, contact

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