## Macquarie **Equities Research**





### The Asia Specialist

INDIA		
SUEL IN	Unde	erperform
Price 12 Jan 10		Rs92.00
12-month target	Rs	62.00
Upside/Downside	%	-32.6
Valuation - Sum of Parts	Rs	62.00
GICS sector	C	apital Goods
Market cap	Rsm	143,244
30-day avg turnover	US\$m	82.6
Market cap	US\$m	3,254
Number shares on is	sue m	1,557

#### **Investment fundamentals**

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	260.8	196.3	218.2	248.9
EBITDA	bn	27.9	13.2	16.4	21.7
EBITDA growth	%	40.2	-52.8	24.5	32.1
Adjusted profit	bn	11.3	-0.2	1.8	7.0
EPS adj	Rs	7.58	-0.15	1.13	4.33
EPS adj growth	%	-4.1	nmf	nmf	282.3
PER adj	Х	12.1	nmf	81.2	21.2
Total DPS	Rs	1.18	1.10	1.10	0.43
Total div yield	%	1.3	1.2	1.2	0.5
ROA	%	6.9	2.5	3.4	4.5
ROE	%	13.5	-0.3	1.9	7.2
EV/EBITDA	Х	9.2	19.9	15.7	11.7
Net debt/equity	%	107.8	102.5	103.2	95.9
P/BV	Х	1.6	1.6	1.6	1.5

## SUEL IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period. Source: FactSet, Macquarie Research, January 2010 (all figures in INR unless noted)

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12 January 2010

## Suzlon Energy

## Oversupply to worsen with new entrants

#### **Event**

 Dongang, LM Glasfiber and Samsung signed new agreements for wind turbine manufacturing, indicating the entry of newer players in the offshore market. Fundamentals remain under pressure in the WTM market from excessive capacity addition and are much ahead of what we anticipated.

#### **Impact**

- Offshore wind turbine supply market overheating: With a host of new entrants also looking toward the offshore market, more than ten manufacturers are now aiming to supply this segment, which has been the domain only of Vestas, Siemens and REpower (a subsidiary of Suzlon).
- China lifts domestic manufacturing clause; no near-term gain for Suzlon: China has dropped the norm of 70% domestic manufacturing for wind turbine. Prima facie, this appears positive, as China is one of the largest markets in the world. However, we believe it indicates that China is now comfortable with its local industry's capability. Moreover, global players like Vestas and Gamesa have a strong presence, with local production facilities in China.
- Dongfang eyes international market with expanded product portfolio: Dongfang (1072 HK, HK\$41.65, OP, TP: HK\$32.60 – Carol Cao), the third-largest turbine maker in China, has signed an agreement with American Superconductor to develop 5MW offshore turbines. It is also set to introduce a 2.5MW machine in 2H CY10.
- Samsung is also aggressively looking at garnering market share: Shortly before Christmas, LM Glasfiber and Samsung Heavy Industries (010140 KS, Won26,500, UP, TP: Won18,000 ES Kwak) entered a blade supply agreement for at least 1,500MW over the next five years. Samsung has a declared goal of achieving 10% market share by 2015 and expects to leverage from its experience in other offshore facilities.
- Other new entrants: Hyundai Heavy Industries (009540 KS, Won204,000, UP, TP: Won140,000 ES Kwak) has also secured North American orders, while Chinese wind turbine maker A-Power and American developer Cielo Wind are jointly seeking permission to construct in Texas. Sinovel has also started building 3MW offshore machines.

#### Earnings and target price revision

No change.

#### **Price catalyst**

- 12-month price target: Rs62.00 based on a sum-of-parts methodology.
- Catalyst: Order inflows and volumes not improving in next two quarters.

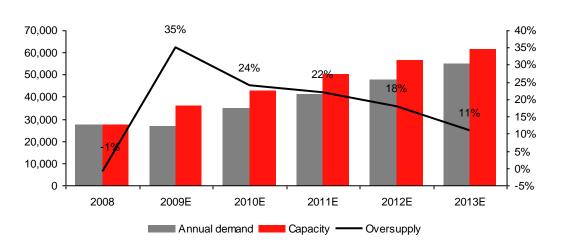
#### **Action and recommendation**

■ Downside risks to our estimates on Suzlon: Our estimate of 30% oversupply by 2011 is based on incumbents alone, thus the entrance of the Korean and Chinese players especially could worsen the outlook even further. Suzlon shares are trading at 12x FY12E EV/EBITDA, a 40–70% premium to the industry. This valuation assumes 15% volume growth, which itself could be at risk.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

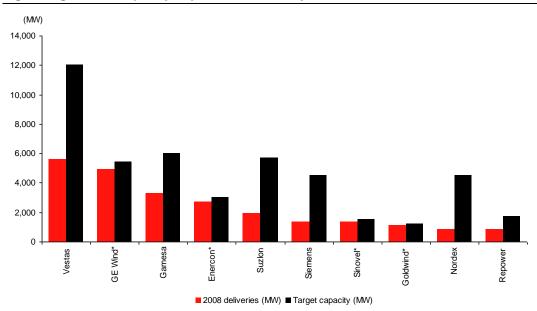
### Oversupply on the anvil – to persist for the next 4–5 years

Fig 1 Oversupply expected to remain until 2013, despite 15% demand CAGR over the next five years



Source: BTM, Macquarie Research, January 2010

Fig 2 Significant capacity expansion underway, 2010–12



\*WTMs who have not set a specific target for capacity expansion Source: Macquarie Research, January 2010

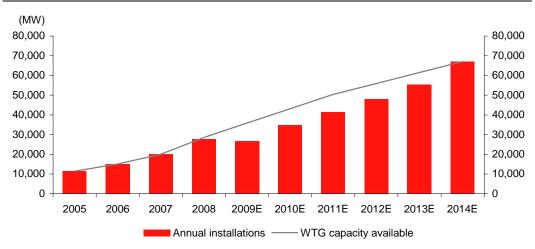
Fig 3 Wind turbine generator manufacturer capacity targets look quite aggressive

Company	2008 deliveries (MW)	Target capacity (MW)	Year	Comment
Vestas	5,580	12,000	2010	Target of 10GW delivered in 2010 is a net measure => additional capacity
GE Wind*	4,924	5,417		,
Gamesa	3,303	6,000	2011	Target is MW sold – Thus Gamesa are targeting 16% market share
Enercon*	2,736	3,009		
Suzlon	1,915	5,700		No target year has been set
Siemens	1,368	4,500	2011	Indicated goal of 15% market share
Sinovel*	1,368	1,505		·
Goldwind*	1,094	1,204		
Nordex	821	4,500	2012	Previously target year was 2011
REpower	821	1,700		No target year has been set
Others	4,377	4,815		• •
Total targeted capacity	27,358	50,350		
Macquarie 2011 est. installations		41,233		
Demand/supply balance		9,116	22.1%	

<sup>\*</sup>GE, Enercon, Sinovel and Goldwind have not indicated specific targets – we assume 10% capacity growth 2008–11 for these companies.

Source: Macquarie Research, January 2010

Fig 4 Overcapacity likely to persist until 2013



Source: Macquarie Research, January 2010

Fig 5 Suzlon is trading at 40-70% premium to global peers on EV/EBITDA

•		_		•		_	-					
	Ticker	Macq	Market Cap	Avg. Vol. (20D)	Current price	Target	Upside	EV/E	BITDA	Р/	BV	PAT CAGR
		Rating	US\$ Bn	US\$ m	12-Jan- 10	Price	%	10e	11e	10e	11e	09-11e
Suzlon	SUEL IN	UP	Rs3.3	73.5	Rs92	Rs62	-33%	20.4	16.4	1.3	1.3	-61%
Vestas	VWS DC	UP	DKr12.7	96.8	DKr319	DKr300	-6%	6.3	4.7	1.8	1.5	29%
Nordex	NDX1 GR	UP	€1.1	5.7	€11.25	€10.9	-3%	7.1	4.9	1.9	1.6	62%
Hansen	HSN LN	N	€1.1	147.7	€1.10	€1.27	15%	14.3	8.1	1.2	1.1	-4%
Gamesa	GAM SM	OP	€4.4	44.2	€12.64	€16.90	34%	7.5	5.8	1.6	1.4	52%
REPower	RPW GR	NR	€2.0	0.9	€148	NR	NR	12.4	10.1	3.1	2.7	16%

Note: Other stock mentioned in report – Siemens (SIE GR, €67.12, UP, TP €54.00). Vestas, Nordex, Hansen and Gamesa covered by Kasper From Larsen; Siemens covered by Andrew Carter. Prices for European stocks as of the market close of 11 January 2010.

Source: Macquarie Research, January 2010

Suzlon Energy (SUEL IN, Underperform, Target Price: Rs62.00)

Suzion Energy (SUEI	L IN, U							2000 4	20405	20445	20425
Quarterly Results		1Q/10A	2Q/10E	3Q/10E	4Q/10E	Profit & Loss		2009A	2010E	2011E	2012E
Revenue	m	49,070	49,070	49,070	49,070	Revenue	m	260,817	196,281	218,183	248,925
Gross Profit	m	9,404	9,404	9,404	9,404	Gross Profit	m	70,592	37,618	42,379	50,417
Cost of Goods Sold	m	39,666	39,666	39,666	39,666	Cost of Goods Sold	m	190,226	158,664	175,803	198,508
EBITDA	m	3,293	3,293	3,293	3,293	EBITDA	m	27,915	13,170	16,398	21,668
Depreciation	m	1,001 0	1,001 0	1,001 0	1,001 0	Depreciation	m	5,731 0	4,003 0	4,603 0	5,198 0
Amortisation of Goodwill Other Amortisation	m m	0	0	0	0	Amortisation of Goodwill Other Amortisation	m m	0	0	0	0
EBIT	m	2,292	2,292	2,292	2,292	EBIT	m	22,184	9,167	11,795	16,470
Net Interest Income	m	-2,197	-2,197	-2,197	-2,197	Net Interest Income	m	-10,539	-8,787	-9,353	-9,344
Associates	m	78	78	78	78	Associates	m	23	312	728	1,322
Exceptionals	m	0	0	0	0	Exceptionals	m	-8,963	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	400	400	400	400	Other Pre-Tax Income	m	4,488	1,600	1,680	1,764
Pre-Tax Profit	m	573	573	573	573	Pre-Tax Profit	m	7,193	2,292	4,850	10,212
Tax Expense	m	-533	-533	-533	-533	Tax Expense	m	-2,881	-2,132	-2,542	-2,728
Net Profit	m	40	40	40	40	Net Profit	m	4,312	161	2,307	7,484
Minority Interests	m	-102	-102	-102	-102	Minority Interests	m	-1,947	-408	-486	-522
Reported Earnings Adjusted Earnings	m m	40 -62	40 -62	40 -62	40 -62	Reported Earnings Adjusted Earnings	m m	4,312 11,328	161 -247	2,307 1,821	7,484 6,963
EPS (rep)		0.02	0.02	0.02	0.02	EPS (rep)		2.88	0.10	1.44	4.66
EPS (adj)		-0.04	-0.04	-0.04	-0.04	EPS (adj)		7.58	-0.15	1.13	4.33
EPS Growth yoy (adj)	%	nmf	nmf	nmf	nmf	EPS Growth (adj)	%	-4.1	nmf	nmf	282.3
						PE (rep) PE (adj)	x x	31.9 12.1	921.0 nmf	64.1 81.2	19.8 21.2
EDITO A A A							^				
EBITDA Margin	% %	6.7	6.7	6.7	6.7	Total DPS Total Div Yield	%	1.18	1.10	1.10	0.43
EBIT Margin	% %	4.7 25.0	4.7 25.0	4.7 25.0	4.7 25.0			1.3	1.2 1,607	1.2	0.5 1,607
Earnings Split Revenue Growth	% %	-24.7	-24.7	-24.7	-24.7	Weighted Average Shares Period End Shares	m m	1,495 1,495	1,607	1,607 1,607	1,607
EBIT Growth	%	-58.7	-58.7	-58.7	-58.7	r chou End Charcs		1,400	1,007	1,007	1,007
Profit and Loss Ratios		2009A	2010E	2011E	2012E	Cashflow Analysis		2009A	2010E	2011E	2012E
Revenue Growth	%	90.7	-24.7	11.2	14.1	EBITDA	m	27,915	13,170	16,398	21,668
EBITDA Growth	%	40.2	-52.8	24.5	32.1	Tax Paid	m	0	0	0	0
EBIT Growth	%	30.5	-58.7	28.7	39.6	Chgs in Working Cap	m	0	0	0	0
Gross Profit Margin	%	27.1	19.2	19.4	20.3	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	10.7	6.7	7.5	8.7	Other	m	-63,435	-1,549	-12,872	-15,617
EBIT Margin Net Profit Margin	% %	8.5 1.7	4.7 0.1	5.4 1.1	6.6 3.0	Operating Cashflow Acquisitions	<b>m</b> m	<b>-35,519</b> 31,367	<b>11,622</b> 0	<b>3,526</b> 0	<b>6,051</b> 0
Payout Ratio	% %	15.5	nmf	96.7	10.0	Capex	m	-33,308	-12,920	-4,160	-4,127
EV/EBITDA	/о Х	9.2	19.9	15.7	11.7	Asset Sales	m	-55,500	-12,920	-4,100	-4,127
EV/EBIT	x	11.6	28.3	21.4	15.1	Other	m	0	0	ő	0
						Investing Cashflow	m	-1,941	-12,920	-4,160	-4,127
Balance Sheet Ratios						Dividend (Ordinary)	m	-1,791	-1,791	-1,791	-741
ROE	%	13.5	-0.3	1.9	7.2	Equity Raised	m	0	0	0	0
ROA	%	6.9	2.5	3.4	4.5	Debt Movements	m	49,325	-10,000	0	0
ROIC	%	11.0	0.3	2.4	5.0	Other	m	0	0	0	0
Net Debt/Equity Interest Cover	% x	107.8 2.1	102.5 1.0	103.2 1.3	95.9 1.8	Financing Cashflow	m	47,534	-11,791	-1,791	-741
Price/Book Book Value per Share	X	1.6 57.7	1.6 58.5	1.6 58.5	1.5 62.4	Net Chg in Cash/Debt	m	10,074	-13,089	-2,424	1,182
Book value per Griare		51.1	30.3	30.3	02.4	Free Cashflow	m	-68,828	-1,298	-633	1,924
						Balance Sheet		2009A	2010E	2011E	2012E
						Cash	m	30,698	18,218	16,766	18,992
						Receivables	m	53,928	40,332	41,843	47,739
						Inventories	m	71,737	59,274	63,786	72,321
						Investments	m	51	51	51	51
						Fixed Assets	m	61,044	69,961	69,518	68,447
						Intangibles	m	0	0	0	. 0
						Other Assets	m	158,057	160,558	162,958	166,327
						Total Assets	m	375,514	348,393	354,921	373,877
						Payables	m	105,947	80,663	86,675	98,888
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	148,696	138,696	138,696	138,696
						Provisions	m	9,576	9,576	9,576	9,576
						Other Liabilities	m	1,868	1,868	1,868	1,868
						Total Liabilities Shareholders' Funds	m m	<b>266,087</b> 86,292	<b>230,803</b> 94,047	<b>236,815</b> 94,078	<b>249,028</b> 100,299
						Minority Interests	m m	23,135	23,542	94,078 24,028	24,550
						Other	m m	23,135	23,542	24,028	∠4,330 ∩
						Total S/H Equity	m	109,427	117,589	118,106	124,849
						Total Liab & S/H Funds	m	375,514	348,393	354,921	373,877
All figures in INR unless noted. Source: Company data, Macqu		earch, Janua	ry 2010								

#### Important disclosures:

#### Recommendation definitions

#### Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return

#### Macquarie - Asia/Europe

Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%

#### Macquarie First South - South Africa

Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%

#### Macquarie - Canada

Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return

#### Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return

Neutral (Hold) – return within 5% of Russell 3000 index return

Underperform (Sell)- return >5% below Russell 3000 index return

Recommendations - 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

#### Volatility index definition\*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

#### Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa\*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit /average total assets

ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation \*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.94%	60.52%	37.50%	43.42%	65.26%	41.60%	(for US coverage by MCUSA, 3.76% of stocks covered are investment banking clients)
Neutral	35.58%	18.70%	53.13%	49.06%	29.11%	36.80%	(for US coverage by MCUSA, 4.51% of stocks covered are investment banking clients)
Underperform	16.48%	20.79%	9.38%	7.52%	5.63%	21.60%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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Andrew Mouat (India)	(9122) 6653 3200
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