

Fuel price hike: moderate impact



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Fuel price hike: moderate impact

- EGOM's decision to raise fuel prices, esp diesel by Rs3 per litre, will increase the freight cost and will have a moderate negative impact on the profitability of Corporate India.
- We have carried out an impact analysis on major sectors viz. auto, cement, consumers, metals, power, engineering, paper, pharma and agri-input.
- We have assumed that 8% increase in diesel price would result in increase of 5% in freight cost. The freight outward can be easily ascertained from the company accounts while the freight inward constitutes a part of the raw materials. We have assumed freight inward at 3% of raw material cost.
- We have also assumed that the entire cost is borne by the company and there is no volume destruction.
- Certain industries consume diesel and other fuels for back-up power. According to us, the cost escalation due to this is negligible and we have not considered the same in our impact analysis.
- The major impact on earnings will be in auto (TVS Motors and JK Tyres), Consumers (Berger Paints), Engineering and Capital Goods (McNally Bharat) and Transformers (Emco).

Sectoral impact analysis

Sector	Change in FY12E EPS (%)		
	Impact due to freight inward	Impact due to freight outward	Total impact
Agri-input	-0.4% to -1.0%	-0.3% to -3.4%	-0.8% to -3.8%
Automobiles	-0.2% to -3.8%	-0.3% to -5.1%	-0.4% to -8.9%
Cement	-2.2%	-2.2%	-2.2%
Consumers	-0.2% to -1.2%	-0.2% to -2.9%	-0.8% to -4.0%
Engineering & Capital Goods	-0.1% to -4.0%	-0.1% to -0.7%	-0.2% to -4.0%
Metals & Mining	-0.8% to -1.4%	-0.2% to -1.0%	-0.2% to -1.8%
Paper	-0.4% to -0.7%	-0.5% to -0.7%	-1.1% to -1.3%
Pharmaceuticals	-0.1% to -1.1%	-0.1% to -1.4%	-0.3% to -2.4%
Power	-0.2% to -2.8%	n.a	-0.2% to -2.8%
Transformers	-0.5% to -3.2%	-0.5% to -3.2%	-0.9% to -6.4%
Others	-0.1% to -0.9%	-0.4% to -1.5%	-0.6% to -2.2%

Worst affected companies : Impact on Earnings

Company	Change in FY12E EPS (%)
JK Tyres	(8.9)
Emco	(6.4)
TVS Motor	(5.5)
Berger Paint	(4.0)
McNally	(4.0)

Freight cost as part of the overall cost in the sector

- Freight costs (incl. carriage inward & outward) accounted for ~6% of sales for companies in our universe. Excl. Tata Chemicals, freight costs stood at 5% for the companies in our universe.

Impact analysis

- Freight cost in fertiliser is reimbursed by the government as freight subsidy and hence we expect that impact on the fertiliser business is likely to be limited.
- The chemical business is likely to be adversely affected if companies are not able to increase the finished product prices. Our impact analysis has assumed full impact of increase in freight cost with no price increase of end product.

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (RS)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Chambal Fertilisers	8.6	(0.05)	(0.6)	(0.16)	(1.9)	(0.21)	(2.5)	8.4	(2.5)
Coromandel Int'l	26.4	(0.27)	(1.0)	(0.46)	(1.8)	(0.74)	(2.8)	25.7	(2.8)
Deepak Fertilisers	25.2	(0.13)	(0.5)	(0.08)	(0.3)	(0.21)	(0.8)	25.0	(0.8)
GNFC	22.4	(0.13)	(0.6)	(0.17)	(0.7)	(0.29)	(1.3)	22.2	(1.3)
Rallis	88.8	(0.41)	(0.5)	(0.59)	(0.7)	(1.00)	(1.1)	87.8	(1.1)
Tata Chem	32.2	(0.14)	(0.4)	(1.10)	(3.4)	(1.23)	(3.8)	31.0	(3.8)
United Phosphorus	18.9	NA	NA	NA	NA	(0.18)	(0.9)	18.7	(0.9)

Freight cost as part of the overall cost in the sector

- Freight outwards ranges from 0.9% to 3% of net sales. Freight inwards accounts for 0.6% to 1.7% of net sales. Total freight cost ranges from 1.5% to 5% of net sales
- The impact on FY12 EPS of 5% increase in diesel price ranges from -0.4% to -8.9%. Amongst this, freight outwards accounts for 58% of EPS impact and the balance by freight inwards.

Impact analysis

- Maximum impact on companies with lower margins. JK Tyre and TVS Motor EPS are impacted by 8.9% and 5.5% respectively.
- The lowest impact is on Tata Motors (0.4%) due to JLR
- On standalone basis, the least impact is on Bajaj Auto (0.7%) followed by Maruti (0.9%)

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Bajaj Auto	97.5	(0.3)	(0.3)	(0.4)	(0.4)	(0.6)	(0.7)	96.9	(0.7)
Hero Honda	110.2	(0.7)	(0.7)	(1.0)	(0.9)	(1.8)	(1.6)	108.4	(1.6)
TVS Motor	5.3	(0.1)	(2.3)	(0.2)	(3.2)	(0.3)	(5.5)	5.0	(5.5)
Maruti	102.4	(0.4)	(0.4)	(0.5)	(0.5)	(0.9)	(0.9)	101.5	(0.9)
M&M	41.9	(0.2)	(0.4)	(0.2)	(0.6)	(0.4)	(1.0)	41.4	(1.0)
Tata Motors	155.2	(0.3)	(0.2)	(0.4)	(0.3)	(0.7)	(0.4)	154.5	(0.4)
Ashok Leyland	5.2	(0.1)	(1.0)	(0.1)	(1.3)	(0.1)	(2.3)	5.1	(2.3)
Eicher Motors	91.6	(0.9)	(1.0)	(1.2)	(1.3)	(2.1)	(2.3)	89.5	(2.3)
Apollo Tyres	8.6	(0.1)	(1.0)	(0.1)	(1.3)	(0.2)	(2.3)	8.4	(2.3)
JK Tyres	19.2	(0.7)	(3.8)	(1.0)	(5.1)	(1.7)	(8.9)	17.5	(8.9)
Motherson Sumi	13.1	(0.0)	(0.3)	(0.1)	(0.5)	(0.1)	(0.9)	13.0	(0.9)

Freight cost as part of the overall cost in the sector

- Freight costs form 20-23% of the total expenditure for cement companies out of which share of road transportation varies between 45-77% .

Impact Analysis

- Though the 8% increase in diesel prices could increase road freight charge by 4-5% and impact the earnings of cement producers negatively, our estimates for FY12 already factor in 5% hike in road transportation costs , except in the case of Ambuja cement , where earnings estimate get negatively impacted by 2.2% for FY12 .
- The diesel price hike would also impact the limestone mining costs (mining costs constitute 50% of the total limestone costs) . However , we have already built in an increase of 5-10% in mining costs in our FY12 estimates and hence we see no earnings revision in our numbers.

Impact analysis Table

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12 E	As % of EPS	FY12E	
Ambuja	8.4	(0.2)	(2.2)	0	0	(0.2)	(2.2)	8.2	(2.2)
ACC	62.6	0	0.0	0	0	0	0.0	62.6	0.0
India Cements	5.0	0	0.0	0	0	0	0.0	5.0	0.0
Madras Cement	9.8	0	0.0	0	0	0	0.0	9.8	0.0
Ultratech	70.5	0	0.0	0	0	0	0.0	70.5	0.0
Shree cement	13.8	0	0.0	0	0	0	0.0	13.8	0.0

Freight cost as part of the overall cost in the sector

- Increase in fuel costs will directly increase the manufacturing costs due to rise in freight inwards and also, result in higher distribution costs on the back of higher freight outward charges. Total impact would range between 80-400bps. While Berger Paints (4%) would be worst affected company in our coverage, Colgate (0.8%) would be the least impacted.

Impact analysis

- Assuming 3% of total material cost is freight inward costs, our calculations indicate that Titan Industries, with COGS of 74% of sales, will be the worst affected with a 1.2% negative impact on earnings, while other consumer companies would post an average 50-60 bps fall in EPS due to increase in freight inward costs.
- Freight outward expenses constitutes 4-5% of sales of our consumer companies. Assuming a 5% increase in freight outwards costs due to a 8-10% hike in diesel prices, earnings of consumer companies under our coverage will get negatively affected by 20-290bps. Worst affected companies would be Berger Paints (2.9%) and HUL (1.8%), whereas least affected would be Titan Industries (0.2%).

Impact Table with revision in EPS

Company	Original EPS (RS)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Asian Paints	98.7	(0.6)	(0.6)	(1.2)	(1.2)	(1.8)	(1.8)	96.9	(1.8)
Berger Paints	5.0	(0.1)	(1.1)	(0.1)	(2.9)	(0.2)	(4.0)	4.8	(4.0)
Colgate	32.6	(0.1)	(0.2)	(0.2)	(0.6)	(0.3)	(0.8)	32.3	(0.8)
Godrej Consumer	19.3	(0.1)	(0.4)	(0.1)	(0.5)	(0.2)	(0.9)	19.1	(0.9)
GSK Consumer	86.6	(0.3)	(0.3)	(1.1)	(1.3)	(1.4)	(1.6)	85.3	(1.6)
HUL	10.9	(0.1)	(0.6)	(0.2)	(1.8)	(0.3)	(2.3)	10.6	(2.3)
Jubilant FoodWorks	16.1	(0.0)	(0.2)	(0.2)	(1.1)	(0.2)	(1.3)	15.9	(1.3)
Marico	5.7	(0.0)	(0.7)	(0.1)	(1.7)	(0.1)	(2.4)	5.5	(2.4)
Nestle	104.1	(0.7)	(0.6)	(1.3)	(1.3)	(2.0)	(1.9)	102.2	(1.9)
Titan Industries	5.9	(0.1)	(1.2)	(0.0)	(0.2)	(0.1)	(1.4)	5.8	(1.4)

Engineering & Capital Goods (ECG)

Freight cost as part of the overall cost in the sector

- Largely, capital goods sector would witness a reduction in earnings of upto 2.5% in FY12E - largely driven by Freight Inward. The impact on account of freight outward is minimal for across the universe at a maximum of -0.7%. McNally Bharat is the only exception with highest decline at 4.0% of FY12E earnings while L&T will be the least impacted at 0.2% of FY12E earnings.

Impact analysis

- Rise in freight inward costs (assumed equal to 3% of total material cost) is likely to negatively impact earnings by 10-400 bps. At 4% earnings at risk, McNally Bharat will be the worst affected – primarily due to negative impact of operating leverage. Earnings at risk for the other companies in the universe (except Punj Lloyd) is expected to be range from -0.1 to -1.4%
- Rise in freight outward expenses, constituting only 1-2% of sales, do not pose as a significant risk to earnings of our ECG companies. Assuming a 5% increase in freight outwards costs due to a 8-10% hike in diesel prices, earnings of our ECG universe will get negatively affected by 10-70 bps. Worst affected companies would be TRF (0.7%) and Blue Star.

Impact Table with revision in EPS

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (RS)	% change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Larsen & Toubro	82.1	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	82.0	(0.2)
BHEL	133.8	(0.6)	(0.4)	(0.3)	(0.2)	(0.8)	(0.6)	133.0	(0.6)
Cummins India	34.5	(0.2)	(0.5)	0.0	0.0	(0.2)	(0.5)	34.3	(0.5)
Thermax	38.7	(0.3)	(0.8)	(0.3)	(0.6)	(0.6)	(1.5)	38.2	(1.5)
Voltas	11.2	(0.1)	(1.1)	0.0	(0.2)	(0.1)	(1.3)	11.1	(1.3)
Blue Star	20.2	(0.3)	(1.4)	(0.1)	(0.7)	(0.4)	(2.1)	19.8	(2.1)
Greaves Cotton	7.9	(0.1)	(1.1)	0.0	0.0	(0.1)	(1.1)	7.8	(1.1)
Punj Lloyd	4.5	(0.1)	(2.7)	0.0	0.0	(0.1)	(2.7)	4.3	(2.7)
TRF	42.8	(0.4)	(0.8)	(0.3)	(0.7)	(0.7)	(1.5)	42.1	(1.5)
Elecon Engineering	8.8	(0.1)	(1.1)	0.0	0.0	(0.1)	(1.1)	8.7	(1.1)
McNally Bharat Engineering	25.9	(1.0)	(4.0)	0.0	0.0	(1.0)	(4.0)	24.8	(4.0)

Freight cost as part of the overall cost in the sector

- We have assumed that hike in diesel prices by ~8% would raise transportation costs by 5%. Freight costs component as a percentage to revenue varies between 1% to 8% for the four large metals and mining companies under our coverage, while, as a percentage to the total costs it varies between 1.5% to 19%

Impact analysis

- We believe, the hike in diesel prices by ~8% by the government on Friday would have slight adverse impact on the margins and earnings of the metals and mining companies especially steel companies. The step to hike diesel prices came in at a time when the steel companies already have been facing problems of slowing demand growth and higher raw material costs
- For Sesa Goa, we have taken the core EPS without any contribution from Cairn India. Also, in case of Sesa Goa we have assumed uniform rise in inland transportation costs. While for Tata Steel and JSW Steel, the impact is mainly due to freight inward costs i.e. due to transportation of raw materials. For Sterlite Industries and Sesa Goa, the impact is due to freight outward costs

Impact Table with revision in EPS

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Tata Steel	77.1	(0.6)	(0.8)	(0.4)	(0.6)	(1.1)	(1.4)	76.0	(1.4)
JSW Steel	95.6	(1.3)	(1.4)	(0.5)	(0.5)	(1.8)	(1.8)	93.8	(1.8)
Sesa Goa (core)	37.2	0.0	0.0	(0.4)	(1.0)	(0.4)	(1.0)	36.8	(1.0)
Sterlite Ind	22.1	0.0	0.0	(0.1)	(0.2)	(0.1)	(0.2)	22.0	(0.2)

Freight cost as part of the overall cost in the sector

- Freight costs (incl. carriage inward & outward) accounted for ~2.5% of sales for companies in our universe.

Impact analysis

- Hike in diesel prices will not have any significant impact on the companies in our coverage. Both, Ballarpur Industries (BILT) and Tamil Nadu Newsprint & Papers Ltd. (TNPL) will have a modest negative impact of 1.1% and 1.3% respectively on FY12E EPS
- Increase in fuel prices may have adverse impact on raw material cost of the companies since inward freight contributes larger share to raw material (Wood / Fiber) cost.

Impact Table with revision in EPS

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Ballarpur Industries	4.5	(0.02)	(0.4)	(0.03)	(0.7)	(0.05)	(1.1)	4.5	(1.1)
TNPL	18.9	(0.14)	(0.7)	(0.10)	(0.5)	(0.24)	(1.3)	18.7	(1.3)

Freight cost as part of the overall cost in the sector

- Freight costs (incl. carriage inward & outward) accounts for ~3% of sales for companies in our universe.

Impact analysis

- Increase in freight cost is expected to be higher for Jubilant Life Sciences (~2.4% impact on FY12 EPS of Rs12.5) and Ipca Labs (~1.5% impact on FY12 EPS of Rs23.1). Divi's Lab, Ranbaxy and Panacea Biotec would be negatively impacted to the tune of ~0.9% on FY12 earnings.
- GSK Pharma (~0.3%) & Cipla (~0.5%) would be the least impacted among the companies under our coverage.
- Our impact analysis has assumed full impact of increase in freight cost with no price increase of end product.

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Aurobindo	20.4	(0.1)	(0.5)	(0.1)	(0.5)	(0.2)	(1.0)	20.2	(1.0)
Cadila	39.9	(0.1)	(0.3)	(0.2)	(0.4)	(0.3)	(0.7)	39.6	(0.7)
Cipla	14.2	(0.0)	(0.4)	(0.0)	(0.1)	(0.1)	(0.5)	14.2	(0.5)
Divi's	37.5	(0.1)	(0.1)	(0.3)	(0.7)	(0.3)	(0.9)	37.2	(0.9)
DRL	96.7	(0.2)	(0.2)	(0.3)	(0.3)	(0.5)	(0.5)	96.2	(0.5)
Glenmark	19.0	(0.0)	(0.3)	(0.1)	(0.5)	(0.2)	(0.8)	18.9	(0.8)
Ipca	23.1	(0.1)	(0.4)	(0.3)	(1.2)	(0.4)	(1.5)	22.8	(1.5)
Jubilant	12.5	(0.1)	(1.1)	(0.2)	(1.4)	(0.3)	(2.4)	12.2	(2.4)
Lupin	21.3	(0.1)	(0.4)	(0.0)	(0.2)	(0.1)	(0.6)	21.2	(0.6)
Panacea	20.6	(0.1)	(0.6)	(0.1)	(0.3)	(0.2)	(0.9)	20.5	(0.9)
Unichem	11.3	(0.0)	(0.4)	(0.1)	(0.6)	(0.1)	(1.0)	11.1	(1.0)
GSK Pharma	66.2	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)	66.0	(0.3)
Pfizer	66.2	(0.1)	(0.2)	(0.6)	(1.0)	(0.8)	(1.1)	65.4	(1.1)
Ranbaxy	32.8	(0.1)	(0.3)	(0.2)	(0.7)	(0.3)	(0.9)	32.5	(0.9)

Freight rate hike to marginally impact earnings

- We have assumed that hike in diesel prices by ~8% would raise transportation costs by 5%. This would increase in transportation cost of fuel (coal). Our analysis shows that impact of freight hike would negatively impact the earnings of the companies in our universe by 0%-2.7%. With Reliance Power earnings facing a risk of 2.7% cut while NPTC/GIPCL earnings would not be impacted due to regulated nature of the business where costs are pass through.

Impact Table with revision in EPS

Company	Original EPS (Rs)	Impact due to freight	Revised EPS (Rs)	% change
	FY12E		FY12E	
Adani Power	10.8	(0.08)	10.7	(0.8)
Jaiprakash Power	1.9	(0.03)	1.9	(1.4)
JSW Energy	7.7	(0.20)	7.5	(2.6)
KSK Energy	12.6	(0.02)	12.6	(0.2)
Lanco Infra	3.1	(0.01)	3.1	(0.4)
Navabharat	38.5	(0.10)	38.4	(0.3)
Reliance Power	2.2	(0.06)	2.1	(2.8)
NPTC	11.6	0.00	11.6	0.0
GIPCL	9.9	0.00	9.9	0.0

Freight cost as part of the overall cost in the sector

- Our transformers universe earnings could witness a cut in the range of 1%-6% if freight rates go up by 5%. For our analysis we have assumed that freight constitutes ~3% of the overall raw material costs. Our analysis show that Emco could witness highest earnings cut of 6% to a 5% increase in freight rates whereas Voltamp would witness lowest earnings cut (of 1%).

Impact Table with revision in EPS

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Bharat Bijlee	75.2	(0.5)	(0.7)	(0.5)	(0.7)	(1.0)	(1.4)	74.2	(1.4)
Emco	2.1	(0.1)	(3.2)	(0.1)	(3.2)	(0.1)	(6.4)	2.0	(6.4)
TRIL	37.4	(0.2)	(0.5)	(0.2)	(0.5)	(0.4)	(1.1)	37.0	(1.1)
Voltamp	57.2	(0.3)	(0.5)	(0.3)	(0.5)	(0.5)	(0.9)	56.7	(0.9)

Other Companies

Impact analysis of rise in freight cost

- Impact of fuel price hike on Essel Propack would be minimal as most of its plants are located near the customer plant/location, thereby its outward freight cost is low. The total impact calculated is 0.6% of FY12E EPS.
- About 59% of sales for PGL comes from its standalone operation (largely domestic manufacturing), thereby impact of fuel price hike would be limited to -1.7% of FY12E EPS, despite its freight cost being high at 7% of sales.
- Havells standalone operations (which is domestic business) would get impacted, which is about 55% of total sales. The total impact calculated is 2.2% of FY12E EPS.
- Sintex standalone operations (domestic business) would get impacted; The total impacted calculated is about 1% on FY12 EPS

Impact Table with revision in EPS (Rs)

Company	Original EPS (Rs)	Impact on Freight Inward		Impact on Freight Outward		Total Impact		Revised EPS (Rs)	% Change
	FY12E	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	As % of EPS	FY12E	
Essel Propack	5.5	0.0	(0.3)	0.0	(0.4)	0.0	(0.6)	5.5	(0.6)
Piramal Glass	18.8	0.0	(0.1)	(0.3)	(1.5)	(0.3)	(1.7)	18.5	(1.7)
Havells India	23.1	(0.2)	(0.9)	(0.3)	(1.3)	(0.5)	(2.2)	22.6	(2.2)
Sintex Industries	20.3	(0.1)	(0.4)	(0.1)	(0.4)	(0.2)	(0.9)	20.1	(0.9)

Thank You

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