Macquarie
India Essentials

The Asia Specialist

Monday, 31 May 2010

Power Grid Corporation of India (Initiating coverage with Underperform) 3

Solid as a rock, priced like a diamond — Jeff Evans

It's regulated, it generates strong cash flow, it's leveraged to defensive domestic growth, but it's not cheap. Power Grid (PGCIL) is a well run business in our view, but at current prices it appears to factor in perfect delivery of its 11th and 12th plan investment budget, ignoring some of the structural growth risks and upcoming equity dilution.

Steel Authority of India (Upgrade to Neutral) 4

Profitability same as Tata Steel! — Rakesh Arora

FY10 results – below expectation: SAIL reported FY10 results that were 10% below our estimate at the operating level. Given the sharp correction, we are upgrading SAIL from Underperform to Neutral while maintaining our target price at Rs208.

Punj Lloyd (Downgrade to Underperform) 5

Ouch! That hurts… — Inderjeetsingh Bhatia

Punj Lloyd reported a surprising set of numbers with projects continuing with losses, which according to management in 3Q10 were completed and handed over to clients. The stress is evident all over as large Libyan projects are delayed, and debt has increased significantly.

Indian Oil (Outperform) 6

Forex, inventory gain boost earnings — Jal Irani

Indian Oil's (IOCL) Rs55.6bn 4Q FY10 PAT is significantly above our and street estimates. Government's (GoI) substantial cash reimbursement of Rs80.7bn enabled IOCL to swing back into the black. The sharp 24% MoM oil price drop has enabled diesel margins to turn positive, we believe enhancing the likelihood of sector reforms.

Hindalco Industries (Outperform) 7

Novelis – a success story — Rakesh Arora

Novelis FY10 results imply a success story: Hindalco's subsidiary, Novelis, reported excellent results for FY10. It has transformed itself, has cut costs aggressively, renegotiated contracts successfully, and is now on track for growth.

Unitech Limited (Outperform) 8

Escalated cost hurts — Jal Irani

Consolidated PAT at Rs1.4bn, down 19.3% QoQ against our estimate of Rs2.1bn. Decline in profit is primarily due to the higher tax rate and realisation of escalated cost estimates for projects which were launched before FY10 and witnessed delays in FY09.

HDIL (Outperform) 9

Successful projects launches continue — Jal Irani

HDIL reported net sales of Rs4,340m, up 6.2% QoQ. PAT increased by 9.3% QoQ and was around 7% above our estimates. Growth is primarily driven by pick-up in Transferable Development Rights (TDR) prices.

Anant Raj Industries (Outperform) 10

Mix shifting to core business — Jal Irani

Anant Raj reported net PAT of Rs307.8m compared to Rs670.7m in 3Q10 and against our estimate of Rs533m. Decline in profit is primarily due to lower asset sales partially offset by higher contribution from core businesses.

Fresh Money Ideas

Company	Rec	Target px (lcy)	Closing (lcy)	Upside/Downside (%)
Jindal Steel and Power (JSP IN)	OP	963.00	653.65	47
Maruti Suzuki India (MSIL IN)	OP	1,640.00	1,223.10	34
Jubilant Organosys (JOL IN)	OP	450.00	343.10	31
Tata Power (TPWR IN)	OP	1,651.00	1,271.65	30
Bharat Petroleum (BPCL IN)	OP	699.00	563.25	24
Larsen & Toubro (LT IN)	OP	1,988.00	1,626.10	22
MTNL (MTNL IN)	UP	47.00	55.95	-16
State Bank of India (SBIN IN)	UP	1,640.00	2,235.30	-27
Idea Cellular (IDEA IN)	UP	35.00	50.20	-30
Reliance Power (RPWR IN)	UP	107.00	156.50	-32

OP = Outperform, UP = Underperform, N = Neutral
Source: Factset, Macquarie Research estimates
Data as at 31/05/2010

INDIA

PWGR IN **Underperform**

Price 28 May 10 Rs103.00

12-month target	**Rs**	**83.00**
Upside/Downside	**%**	**-19.4**
Valuation	**Rs**	**82.94**
- DCF (WACC 11.0%)		
GICS sector		**Utilities**
Market cap	**Rsm**	**433,527**
30-day avg turnover	**US$m**	**3**
Market cap	**US$m**	**9,033**
Number shares on issue	**m**	**4,209**

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	71.3	94.1	113.0	134.6
EBIT	bn	38.9	53.4	64.0	75.8
EBIT growth	%	-13.1	37.2	19.8	18.5
Recurring profit	bn	27.2	29.9	35.6	42.4
Reported profit	bn	20.4	23.9	28.5	33.9
Adjusted profit	bn	21.4	23.9	28.5	33.9
EPS rep	Rs	4.85	5.42	6.16	7.31
EPS rep growth	%	20.7	11.7	13.7	18.7
EPS adj	Rs	5.08	5.42	6.16	7.31
EPS adj growth	%	21.4	6.6	13.7	18.7
PER rep	x	21.2	19.0	16.7	14.1
PER adj	x	20.3	19.0	16.7	14.1
Total DPS	Rs	1.45	1.55	1.85	2.19
Total div yield	%	1.4	1.5	1.8	2.1
ROA	%	6.6	7.7	7.9	8.4
ROE	%	14.0	12.7	12.6	13.6
EV/EBITDA	x	12.7	10.6	8.8	7.4
Net debt/equity	%	195.3	159.0	188.4	207.0
P/BV	x	2.7	2.2	2.0	1.8

Source: FactSet, Macquarie Research, May 2010
(all figures in INR unless noted)

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28 May 2010

Power Grid Corporation of India

Solid as a rock, priced like a diamond

Buffet-like, except the price

It's regulated, it generates strong cash flow, it's leveraged to defensive domestic growth, but it's not cheap. Power Grid (PGCIL) is a well run business in our view, but at current prices it appears to factor in perfect delivery of its 11th and 12th plan investment budget, ignoring some of the structural growth risks and upcoming equity dilution. The stock trades at a 20% premium to our price target of Rs83/share, and we initiate with an Underperform recommendation.

Factoring in strong capex, but execution risks increase

We are assuming strong capex forecasts, with PGCIL achieving 90% of its 11th plan capex budget and 100% of 12th plan capex estimates. But risks to these forecasts are likely to the downside, driven by generation capacity delays, a lack of investment in infra-state transmission, competition from contractors reducing capex and new IPP projects based in high execution-risk areas.

Limited scope to boost ROE = limited earnings upside

Whilst the aim of many listed utilities is to 'beat' the regulated return (indeed privatised Indian distribution networks) PGCIL has limited scope to materially do so. While this provides earnings certainty, we see little incremental earnings upside. Additionally, we make the call that the regulated ROE will fall in the following regulatory period to 14%.

Negative catalyst 1: FPO the beginning of a dilution cycle

The PGCIL board has given its in-principle approval for a follow-on Public Offer (FPO) and we expect a fresh equity issue of 10% of existing shares plus a 10% selldown of the Government's stake in FY11. FPOs in 2010 have underperformed the market by 40% (on average) in the month leading up to FPO. Additionally, we expect PGCIL to require further equity in FY14.

Negative catalyst 2: rate tightening make returns look bad

From an asset allocation perspective, regulated utilities underperform during periods of rising bond yields – PWGR's historic share price reflects this. Macquarie forecasts Indian policy rates to tighten by another 50-100 basis points over the next 12 months, closer to a 'neutral' policy rate. We expect the ten-year bond yield to peak at 8.00-8.25% before the end CY10.

Valuation not compelling: Rs83/share price target

We use a sum-of-the-parts methodology to derive our Rs83/share price target, with regulated transmission ~95% of our valuation. On a PER basis, the stock is trading at 19x FY11 PER and 17x FY12 PER - a 20%-30% premium to the sector. Our price target implies a one-year forward PER of around 15-16x as a reasonable buying range. Relative to global transmission peers, the stock also doesn't look compelling.

We would switch out of PGCIL into higher beta plays such as Tata Power (TPWR IN, OP, TP: Rs1,651) and Adani Power (ADANI IN, Outperform, TP: Rs130).

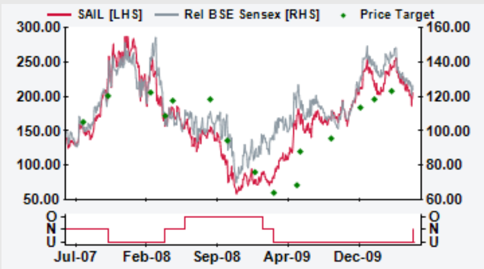
INDIA

SAIL IN		**Neutral**
Price 28 May 10		**Rs205.55**
12-month target	**Rs**	**208.00**
Upside/Downside	**%**	**1.2**
Valuation - PER	**Rs**	**208.00**
GICS sector		**Materials**
Market cap	**Rsm**	**849,004**
30-day avg turnover	**US$m**	**3.5**
Market cap	**US$m**	**18,319**
Number shares on issue	**m**	**4,130**

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	406.0	517.4	617.4	674.1
EBITDA	bn	92.3	131.5	144.0	138.4
EBITDA growth	%	-0.6	42.4	9.5	-3.8
Reported profit	bn	67.7	86.9	92.1	79.8
EPS rep	Rs	16.40	21.04	22.29	19.32
EPS rep growth	%	8.3	28.3	5.9	-13.3
PER rep	x	12.5	9.8	9.2	10.6
Total DPS	Rs	3.00	4.00	5.00	6.00
Total div yield	%	1.5	1.9	2.4	2.9
ROA	%	12.8	16.0	15.1	12.2
ROE	%	21.9	23.5	20.9	15.8
EV/EBITDA	x	8.5	6.0	5.5	5.7
Net debt/equity	%	-19.1	-20.4	-5.3	-3.8
P/BV	x	2.5	2.1	1.8	1.6

SAIL IN rel BSE Sensex performance, & rec history



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Source: FactSet, Macquarie Research, May 2010

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31 May 2010

Steel Authority of India

Profitability same as Tata Steel!

Event

- **FY10 results – below expectation:** SAIL reported FY10 results that were 10% below our estimate at the operating level. Given the sharp correction, we are upgrading SAIL from Underperform to Neutral while maintaining our target price at Rs208. We still prefer Tata Steel (TATA IN, Rs496.15, Outperform, TP: Rs776.00), which contrary to perceptions of its high cost due to its European arm, has reported the same US$180/t EBITDA margin as SAIL and is available at 50% lower PER of 6x. In our view, SAIL might remain range-bound until there is further clarity on the timeline of its FPO.

Impact

- **4Q results – driven by price:** SAIL reported net sales at Rs119bn, up 23% QoQ driven by a 6% increase in realisation and a 7% rise in sales. EBITDA at Rs28.2bn was up 18% QoQ, muted by an 8% cost increase, possibly due to consumption of high-priced coking coal from last year's contract. Net profit at Rs20.8bn was up 24% QoQ, aided by a 22% increase in other income.
- **FY11E forecasts – not much upside possible:** SAIL has been unable to improve its EBITDA much above the US$180/t level even with higher steel prices given its lack of integration on coking coal. We continue to be sceptical about a huge upside to our EBITDA forecast of US$223/t and US$206/t for FY11 and FY12, respectively.
- **Expansion can be further delayed:** As per the current status of equipment ordering, it appears quite possible that SAIL may see further slippages to its 10mtpa expansion which is now estimated by 2012. Almost 8mt of capacity increase has 25–55% of equipment yet to be ordered. This puts our volume assumptions, of 17.3mt and 21.2mt respectively for FY12 and FY13, at risk.
- **Like the strategy and potential:** SAIL is upgrading its facilities to improve its value added position; we estimate that its realisation can increase by US$50/t to US$60/t due to improved product mix, but only from FY13 onwards. SAIL is also starting its coking coal mine, Tasra, which is being developed with a targeted capacity of 4mtpa and is fully integrated for iron ore.

Earnings and target price revision

- We maintain our Rs208 target price and earnings. However, we have marginally adjusted our estimates for the actual for FY10.

Price catalyst

- 12-month price target: Rs208.00 based on a PER methodology.
- Catalyst: Timeline of its FPO, decline in steel prices.

Action and recommendation

- **Upgrading to Neutral:** SAIL looks fairly valued to us at 10x PER on FY11E, with limited downside. However, we believe the catalysts are some time away and the upcoming equity issuance will keep the stock price muted. We prefer Tata Steel, whose earnings we believe consensus is severely underestimating.

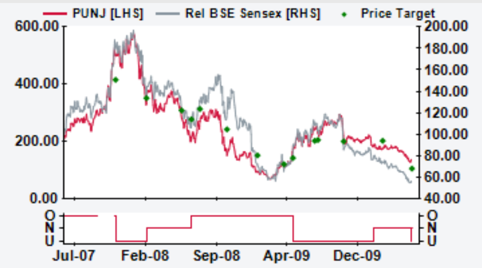
INDIA

PUNJ IN		Underperform
Price 28 May 10		Rs137.45
12-month target	**Rs**	**80.00**
Upside/Downside	**%**	**-41.8**
Valuation	**Rs**	**80.00**
- EV/EBITDA		
GICS sector		**Capital Goods**
Market cap	**Rsm**	**45,647**
30-day avg turnover	**US$m**	**2.2**
Market cap	**US$m**	**985**
Number shares on issue	**m**	**332.1**

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	119.1	105.4	103.7	118.9
EBITDA	bn	3.1	2.2	9.3	10.7
EBITDA growth	%	-51.7	-29.4	327.3	14.7
Recurring profit	bn	-0.1	-3.0	3.2	4.0
Adjusted profit	bn	-2.3	-4.5	2.4	3.0
EPS adj	Rs	-7.69	-13.51	7.24	9.01
EPS adj growth	%	nmf	-75.8	nmf	24.4
PER adj	x	nmf	nmf	19.0	15.3
Total DPS	Rs	0.53	0.00	0.33	0.00
Total div yield	%	0.4	0.0	0.2	0.0
ROA	%	1.4	-0.1	5.5	6.3
ROE	%	-8.9	-16.2	7.6	8.7
EV/EBITDA	x	25.1	37.3	8.7	7.6
Net debt/equity	%	108.7	125.6	129.3	126.9
P/BV	x	1.7	1.5	1.4	1.3

PUNJ IN rel BSE Sensex performance, & rec history



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31 May 2010

Punj Lloyd

Ouch! That hurts…

Event

- Punj Lloyd reported a surprising set of numbers with projects continuing with losses, which according to management in 3Q10 were completed and handed over to clients. The stress is evident all over as large Libyan projects are delayed, and debt has increased significantly. We cut our earnings estimates by 32% for FY11 and 41% for FY12. We downgrade the stock to Underperform from Neutral, and reduce our price target to Rs80 from Rs202.

Impact

- **Bio-ethanol project losses reappear, when it was supposed to have been completed last quarter**: PUNJ has booked losses of Rs4bn in 4Q10 on a bio-ethanol project in UK which was supposed to have been completed and commissioned as per the company's press release for 3Q10 results. Liquidated damage of Rs1.63bn was expected and therefore, the excess loss of Rs2.37bn is surprising. Management has said that handover is not yet complete and may take another couple of quarters to close the issue.
- **Revenue disappoints with 45% decline YoY:** Revenues stood at Rs177.6bn in 4Q10 (down 45% YoY, 39% QoQ). Similarly, revenues for FY10 declined 12%.
- **Key Libyan projects (28% of the order book) delayed**: Management clarified that projects in Libya have not yet started and are unlikely to generate any revenue until 4Q11. We have assumed that these projects will only start in FY12. This remains a key risk to our FY12 numbers.
- **Balance sheet stress evident:** Net debt/equity has increased to 1.3x from 1.1x last year as book continues to get eroded. Gross debt on the company's books is Rs45bn, up Rs10bn YoY.

Earnings and target price revision

- We have cut our revenue estimates for FY11 and FY12 by 13% to factor in the delay in the Libya projects. We cut our earnings estimates by 32% and 41% for FY11 and FY12, respectively. TP reduced to Rs80 from Rs202.

Price catalyst

- 12-month price target: Rs80.00 based on an EV/EBITDA methodology.
- Catalyst: Further write-downs in Simon Carves and ONGV Heera project.

Action and recommendation

- **Earnings visibility remains a key concern**: Even after losses of Rs7bn in the bio-ethanol project, the company remains mobilised on the site, which might lead to further cost over-runs. Risk persists on the ONGC project too as it has already booked revenues of Rs2.4bn expecting recovery of costs along with potential liquidated damages of Rs650m.
- **Target price cut to Rs80, based on 7x FY11E EV/EBITDA, downgrade to Underperform**: We are now valuing the company at 7x FY11E EV/EBITDA, in line with our mid-cap sector valuation and to factor in the large debt on the balance sheet and sale of Pipavav Shipyard stake. Our revised price target is Rs80, down from Rs202. We have downgraded the stock to Underperform.

INDIA

IOCL IN Outperform

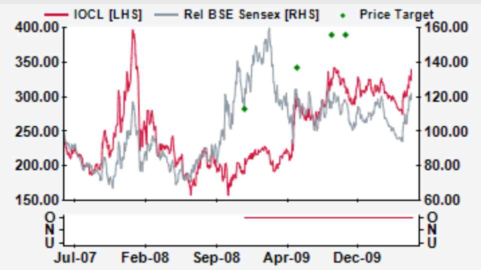
Price 28 May 10 Rs341.30

12-month target	**Rs**	**411.00**
Upside/Downside	**%**	**20.4**
Valuation	**Rs**	**411.00**
- Sum of Parts		
GICS sector		**Energy**
Market cap	**Rsm**	**828,676**
30-day avg turnover	**US$m**	**17.3**
Market cap	**US$m**	**17,457**
Number shares on issue	**m**	**2,428**

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	2,539.6	3,416.4	3,438.3	3,661.4
EBIT	bn	131.8	104.9	109.9	111.2
EBIT growth	%	402.0	-20.4	4.7	1.2
Recurring profit	bn	150.5	108.5	126.4	143.2
Reported profit	bn	107.1	76.3	84.2	101.5
EPS rep	Rs	44.12	31.44	34.67	41.79
EPS rep growth	%	312.1	-28.7	10.3	20.5
PER rep	x	7.7	10.9	9.8	8.2
Total DPS	Rs	15.23	10.85	11.97	14.42
Total div yield	%	4.5	3.2	3.5	4.2
ROA	%	9.1	6.7	6.8	7.0
ROE	%	22.0	14.0	14.1	15.5
EV/EBITDA	x	7.6	8.5	8.0	7.9
Net debt/equity	%	83.0	66.9	48.5	29.9
P/BV	x	1.6	1.5	1.3	1.2

IOCL IN rel BSE Sensex performance, & rec history



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28 May 2010

Indian Oil

Forex, inventory gain boost earnings

Event

- Indian Oil's (IOCL) Rs55.6bn 4Q FY10 PAT is significantly above our and street estimates. Government's (GoI) substantial cash reimbursement of Rs80.7bn enabled IOCL to swing back into the black. The sharp 24% MoM oil price drop has enabled diesel margins to turn positive, we believe enhancing the likelihood of sector reforms. We feel IOCL presents compelling value (even in the current worst-case scenario). We reaffirm our OP rating and increase our TP to Rs411/sh from Rs390/sh.

Impact

- **Forex gains and product inventory gains boosted FY10 earnings:** Large petro-product inventory gains of Rs25.4bn and exchange fluctuation gains of Rs18bn boosted the FY10 PAT to Rs107.1bn.
- **Cash support assists 4Q PAT turnaround.** The 4Q is always volatile as the GOI balances cash re-imbursement to allow a bare minimum PAT of Rs30–35bn. Cash compensation was two-fold; the upstream companies compensated Rs32.5bn and GoI's Rs80.7bn (in addition to Rs70bn during 9mFY10). Consequently, IOCL had to bear Rs31.6bn of the under-recoveries (Figs 2, 3).
- **GRMs much improved due to robust auto-fuel cracks:** With gasoline and diesel cracks averaging in excess of US$8.5/bbl, GRMs for even a simple refiner like IOCL averaged US$3.5/bbl during 4Q.
- **Back in the black.** Sharp 24% MoM oil price drop has turned diesel margins to positive at Rs1.2/lt from a negative Rs1.5/lt. Diesel is its largest product. Gasoline margins have also sharply gained by Rs3.3/lt, but remain mildly –ve at Rs0.2/lt. Presently, crude oil break-even for diesel and gasoline stands at US$74.5bbl and US$69.3/bbl, respectively. Kerosene and LPG margins remain –ve at Rs18.1/l and Rs213/cyl, respectively, despite improvements.

Earnings and target price revision

- FY11/12E PAT increased by ~8% and TP by 5% to Rs411/sh, on account of better GRM expectations and higher throughput assumptions for pipelines.

Price catalyst

- 12-month price target: Rs411.00 based on a Sum of Parts methodology.
- Catalyst: Ramp-up of Panipat refinery expansion and Naphtha cracker; implementation of Kirit Parikh recommendations.

Action and recommendation

- **Compelling valuation, multiple triggers.** We think IOCL's FY11E PER of 10.9x is undemanding, especially given a 3.2% dividend yield. This is in fact under the prevalent worst-case scenario of controlled pricing. We believe the sharp recent fall in oil prices and the GOI's recent gas price reforms enhance probability of downstream sector reforms. An Empowered Group of Ministers' meeting is scheduled on 7 June to deliberate on the same. With petrochemical margins having stabilized (albeit at low levels), ramp-up of the Panipat Naphtha cracker operations should support earnings growth in the near future as well.

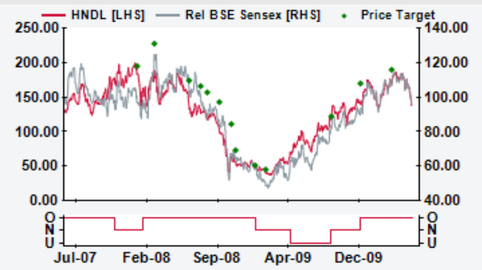
INDIA

HNDL IN		**Outperform**
Price 27 May 10		**Rs148.40**
12-month target	**Rs**	**190.00**
Upside/Downside	**%**	**28.0**
Valuation - PER	**Rs**	**190.00**
GICS sector		**Materials**
Market cap	**Rsm**	**283,889**
30-day avg turnover	**US$m**	**36**
Market cap	**US$m**	**6,004**
Number shares on issue	**m**	**1,913**

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	662.7	596.1	618.0	617.1
EBITDA	bn	54.7	76.7	76.7	72.0
EBITDA growth	%	-16.8	40.3	0.0	-6.1
Reported profit	bn	10.3	25.2	30.0	28.8
EPS rep	Rs	6.06	13.12	15.65	15.01
EPS rep growth	%	-70.5	116.4	19.3	-4.1
PER rep	x	24.5	11.3	9.5	9.9
Total DPS	Rs	1.36	2.00	3.00	3.00
Total div yield	%	0.9	1.3	2.0	2.0
ROA	%	3.5	7.9	8.2	7.5
ROE	%	9.0	17.6	18.3	15.2
EV/EBITDA	x	8.6	6.5	6.5	6.9
Net debt/equity	%	127.6	110.1	100.8	92.7
P/BV	x	1.6	1.6	1.4	1.3

HNDL IN rel BSE Sensex performance, & rec history



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28 May 2010

Hindalco Industries

Novelis – a success story

Event

- **Novelis FY10 results imply a success story:** Hindalco's subsidiary, Novelis, reported excellent results for FY10. It has transformed itself, has cut costs aggressively, renegotiated contracts successfully, and is now on track for growth. We reiterate our Outperform rating and target price of Rs190.

Impact

- **Novelis reports strong FY10 results:** Net sales of $8.7bn were 2% above our estimates, although down 15% YoY. However, despite this decline, operating EBITDA of $1.1bn was almost twice EBITDA of $566mn Novelis earned in FY09.
- **On track to achieve FY11E:** Our estimate for Novelis's FY11 EBITDA stands at US$921mn, which implies an EBITDA-per-ton of US$322 and a volume of 2.8mnt. This quarter, Novelis has achieved exactly the same adjusted EBITDA-per-ton of $322. It has reported a volume of 0.7mnt, which also matches our assumed run-rate for FY11E.
- **Growth – back in focus:** Novelis has announced an expansion of its rolling facility in Brazil, to 600ktpa from 390ktpa at an estimated capex of US$300mn, to be completed by 2012. It is also looking for more opportunities in Asia. Novelis, though currently operating at 90% capacity utilisation, believes that it will still be able to squeeze out a bit further growth from its existing assets.
- **Balance sheet – well funded:** Novelis has posted a net debt of US$2.2bn, which on our FY11 EBITDA estimate of 2.4x looks reasonable to us vs. its historical level. It has a cash balance of US$437m and should be easily able to fund the proposed capex from internal accruals. However, it may avail of concessional debt from the Brazilian government for the proposed expansion.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs190.00 based on a PER methodology.
- Catalyst: Increased confidence in earnings sustainability of Novelis and visibility of expansions in India.

Action and recommendation

- **Top aluminium stock in the region:** Even though we are not as bullish about aluminium, we believe Hindalco offers good value, has strong growth drivers, and is least dependent on aluminium price. Recovery in Novelis is the key driver of its earnings for FY11. From FY12 onwards, it will start commissioning its 3-fold increase in aluminium capacity, which is backed by 200mn of bauxite resources, making Hindalco the lowest-cost producer.
- **At 9.3x PER**, Hindalco is trading at least at a 50% discount to its peers like Chalco and Alcoa on FY11E.

Macquarie
Equities Research

The Global Property Specialist

INDIA

UT IN		Outperform
Price 28 May 10		Rs73.35
12-month target	**Rs**	**101.00**
Upside/Downside	**%**	**37.7**
Valuation - DCF (WACC 14.7%)	**Rs**	**119.37**
GICS sector		**Real Estate**
Market cap	**Rsm**	**178,724**
30-day avg turnover	**US$m**	**8.2**
Market cap	**US$m**	**3,856**
Number shares on issue	**m**	**2,437**

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	27.0	39.5	133.1	288.6
EBITDA	bn	16.8	18.3	74.3	160.4
EBITDA growth	%	8.2	9.3	305.6	115.9
Recurring profit	bn	9.7	14.2	75.0	155.7
Adjusted profit	bn	7.3	10.6	49.6	109.0
EPS adj	Rs	3.04	4.45	20.75	134.25
EPS adj growth	%	-58.8	46.3	366.2	546.9
PER adj	x	24.1	16.5	3.5	0.5
Total DPS	Rs	0.06	0.09	0.41	13.42
Total DPS growth	%	-58.8	46.3	366.2	3,141.2
Total div yield	%	0.1	0.1	0.6	18.3
ROA	%	5.8	5.7	20.9	32.7
ROE	%	8.8	8.9	33.3	35.1
EV/EBITDA	x	13.9	12.7	3.1	0.7
Net debt/equity	%	50.3	53.4	14.7	-42.7
P/BV	x	1.5	1.4	1.0	0.1

UT 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, May 2010
(all figures in INR unless noted)

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31 May 2010

Unitech Limited

Escalated cost hurts

Event

- Consolidated PAT at Rs1.4bn, down 19.3% QoQ against our estimate of Rs2.1bn. Decline in profit is primarily due to the higher tax rate and realisation of escalated cost estimates for projects which were launched before FY10 and witnessed delays in FY09. We retain our Outperform rating but reduce our TP by 6%.

Impact

- **Escalated cost hurt in the near term.** EBITDA margin for the company stood at 22% in 4Q10 compared to 34% in 4Q09. Decline in margin is due to realisation of escalated cost estimates for delay in projects which were launched before FY10 and were impacted due to slowdown. The company expects margin to get back to its normal level in two-three quarters as contribution of profit bookings from projects launched in FY10 will increase.
- **But robust on the ground performance.** The company managed to book record sales of 16.6m sqf in FY10 (3.46m sqf in 4Q10) against previous highest of ~10m sqf in any year by Unitech. Value of sales bookings stood at ~Rs70bn. Construction work is on track and to enhance its execution capabilities the company has increased its workforce to 21,000 from 3,500 at the beginning of FY10.
- **Strong balance sheet position.** The company has strengthened its balance sheet by bringing down its debt balance to around Rs60.7bn from Rs91bn at end-FY09. Net debt/equity ratio has come down to 0.52x from ~1.51x at the end of FY09. Debt repayment due in FY11 stands at Rs20bn which the company expects to repay through internal accruals and restructuring of short term debt into long term debt.

Earnings and target price revision

- Cost escalation due to earlier delays has led to decline in earnings forecasts for FY11E, FY12E and FY13E by 13%, 5% and 4%. We have reduced our target price to Rs101 from Rs108.

Price catalyst

- 12-month price target: Rs101.00 based on a Sum of Parts methodology.
- Catalyst: macro factors, data points on sales volumes and prices

Action and recommendation

- **Compelling valuations.** The stock currently trades at around 39% discount to our net NAV estimate. We have provided a 15% discount to our net NAV of Rs119 to reach at target price of Rs101. Our net NAV calculation includes investment in telecom business at book value of Rs30bn or Rs13/share.
- **Reiterate Outperform.** Our Outperform rating is based on successful launch of projects which provides enhanced visibility of steady cashflows and strong balance sheet position.

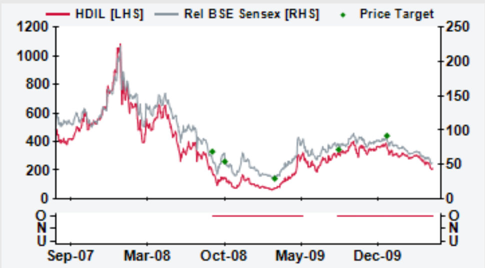
INDIA

HDIL IN		**Outperform**
Price 27 May 10		**Rs229.00**
12-month target	**Rs**	**325.00**
Upside/Downside	**%**	**41.9**
Valuation - DCF (WACC 14.7%)	**Rs**	**294.48**
GICS sector		**Real Estate**
Market cap	**Rsm**	**82,165**
30-day avg turnover	**US$m**	**8.1**
Market cap	**US$m**	**1,596**
Number shares on issue	**m**	**358.8**

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	m	14,960	19,291	36,852	49,535
EBITDA	m	11,241	15,093	29,989	40,423
EBITDA growth	%	-14.6	34.3	98.7	34.8
Recurring profit	m	6,338	10,622	25,705	35,716
Adjusted profit	m	5,197	8,498	20,564	28,574
EPS adj	Rs	15.03	24.57	59.46	82.62
EPS adj growth	%	-45.1	63.5	142.0	38.9
PER adj	x	15.2	9.3	3.9	2.8
Total DPS	Rs	0.00	0.00	0.00	0.00
ROA	%	10.4	11.8	20.7	23.2
ROE	%	8.9	11.1	22.6	24.7
EV/EBITDA	x	9.7	7.3	3.7	2.7
Net debt/equity	%	42.0	41.0	-12.4	-15.9
P/BV	x	1.1	1.0	0.8	0.6

HDIL 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, May 2010

(all figures in INR unless noted)

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28 May 2010

HDIL

Successful projects launches continue

Event

- HDIL reported net sales of Rs4,340m, up 6.2% QoQ. PAT increased by 9.3% QoQ and was around 7% above our estimates. Growth is primarily driven by pick-up in Transferable Development Rights (TDR) prices. We reiterate our Outperform rating and revise our target price to Rs325.

Impact

- **Successful project launches continue.** HDIL has successfully launched 4.7m sqf of residential projects since CY09 beginning. The company should recognise around Rs26bn of sales from these projects. As the company follows the project completion method, the major part of revenue from these launches should come in FY12. The company also plans to launch around 4-6m sqf of residential projects in Mumbai suburbs region in FY11.
- **TDR sales continue to boost revenue.** Almost 90% of company's 4Q FY10 revenue came in the form of TDR sales. During the quarter, the company sold around 1.5m sqf of TDR at an average rate of ~Rs2500, in line with 3Q FY10 levels but over 150% higher than 4Q FY09 levels.
- **Rehabilitation for 1st Phase of the Airport project expected to start in three months.** Around 75% of the work is completed for the 1st phase of the Mumbai airport slum rehabilitation project. Rehabilitation process is delayed and is expected to start in next three months. This delay is not going to have any significant impact on our valuations but successful completion of this phase would allow the company to prove its execution capabilities for further phases. This project (all three rehab phases and the consequent reward of TDR and land) contributes ~75% to our core NAV estimate.
- **Balance sheet improves mildly.** Net debt/Equity has gone down to 0.45x against 0.49x in 3QFY10. Average cost of debt for the company stands at 12.5%.

Earnings and target price revision

- As a result of delay in projects we have cut our earnings estimate for FY11E, FY12E and FY13E by 23%, 12% and 1%. We have revised our target price to Rs325 from Rs441. We have excluded parts of Virar project and a few other longer term projects—which are not expected to take off before FY14—in our NAV calculation. If these projects were included in our financial model, they would add another Rs106/share to our NAV.

Price catalyst

- 12-month price target: Rs325.00 based on a Sum-of-the-Parts methodology.
- Catalyst: Progress on the airport site rehabilitation project, Macro triggers

Action and recommendation

- **Maintain Outperform.** Successful project launches combined with consistent TDR sales and postponement of debt repayments provides steady cash inflow visibility. We maintain our Outperform rating with a sum-of-the-parts based target price of Rs325.

Anant Raj Industries

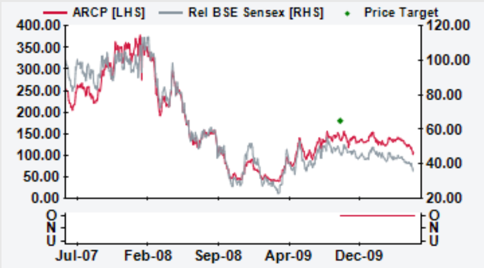
Mix shifting to core business

INDIA		
ARCP IN		Outperform
Price 28 May 10		Rs112.90
12-month target	Rs	157.00
Upside/Downside	%	39.1
Valuation	Rs	225.00
- Sum of Parts		
GICS sector		Materials
Market cap	Rsm	33,316
30-day avg turnover	US$m	0.3
Market cap	US$m	719
Number shares on issue	m	295.1

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	m	3,231	7,016	10,225	14,227
EBITDA	m	2,803	4,308	6,755	9,216
EBITDA growth	%	27.0	53.7	56.8	36.4
Recurring profit	m	3,388	4,610	6,504	9,032
Adjusted profit	m	2,609	3,412	4,683	6,503
EPS rep	Rs	8.85	11.58	15.89	22.07
EPS adj	Rs	8.85	11.58	15.89	22.07
EPS adj growth	%	25.1	30.8	37.3	38.9
PER adj	x	12.8	9.8	7.1	5.1
Total DPS	Rs	0.00	0.00	0.00	0.00
Total DPS growth	%	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	7.3	9.9	12.9	15.8
ROE	%	7.7	9.5	11.8	14.5
EV/EBITDA	x	10.6	6.9	4.4	3.2
Net debt/equity	%	-10.0	-10.2	-10.1	-13.9
P/BV	x	1.0	0.9	0.8	0.7

ARCP 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, May 2010

(all figures in INR unless noted)

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31 May 2010

Event

- Anant Raj reported net PAT of Rs307.8m compared to Rs670.7m in 3Q10 and against our estimate of Rs533m. Decline in profit is primarily due to lower asset sales partially offset by higher contribution from core businesses. In FY11, we should see the sales mix shifting more towards core businesses and lower contribution from asset sales.
- We retain our Outperform rating but reduce our target price by ~12.5% to Rs157. The target price is adjusted for delays in project launches.

Impact

- **Sales mix shifting towards core business.** Net sales at Rs340.9m went down from Rs826.2m in 3Q10 primarily due to lower income from asset sales. Asset sales accounted for Rs180m compared to ~Rs750m in 3Q10. Rental income grew by around 11% QoQ and its contribution to total sales has increased to ~44% from 16% in 3Q FY10. Going forward, we expect that the increase in rental income, combined with income from residential project launches, should provide stability to earnings.
- **Strong project pipeline for FY11.** The company has a strong project pipeline of residential and leasing business launches in FY11. Kirti Nagar mall, Delhi, should start generating rental income from 2Q11. This project is expected to provide rental income of over Rs900m in FY12E and contributes ~7.5% to our gross NAV estimate. Apart from this, the company is also expected to launch its mid-income housing project in Manesar as well as New Delhi based premium housing projects during FY11.
- **Balance sheet remains strong.** Anant Raj has cash balance of Rs4.9bn with debt of Rs1.0bn. Average cost of debt for the company stands at ~12%. We believe the net cash balance sheet allows the company to capitalise on growth opportunities and continue its strategy of purchasing attractive land parcels at reasonable rates. The company targets to spend around Rs3bn on land acquisition in FY11.

Earnings and target price revision

- We have cut down our earnings estimate for FY11E, FY12E and FY13E by 11%, 11% and 6% primarily due to delay in project launches. Our TP is reduced to Rs157 from Rs180.

Price catalyst

- 12-month price target: Rs157.00 based on a Sum of Parts methodology.
- Catalyst: Macro factors, data points on sales volumes and prices, fund raising.

Action and recommendation

- **Maintain Outperform.** Our Outperform rating with target price of Rs157 is based on attractive valuations, conservative management style, strong balance sheet position and steady cashflow visibility.

INDIA

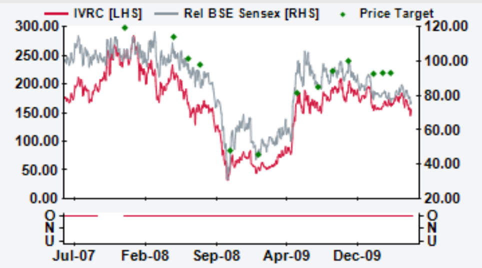
IVRC IN	Outperform
Price 28 May 10	Rs155.95

12-month target	**Rs**	**220.00**
Upside/Downside	**%**	**41.1**
Valuation - Sum of Parts	**Rs**	**220.00**
GICS sector		**Capital Goods**
Market cap	**Rsm**	**41,639**
30-day avg turnover	**US$m**	**1.5**
Market cap	**US$m**	**453**
Number shares on issue	**m**	**267.0**

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	m	49,525	58,414	76,585	92,261
EBITDA	m	4,846	6,675	9,895	11,760
EBITDA growth	%	-12.5	37.7	48.3	18.8
Adjusted profit	m	2,474	2,255	3,068	3,786
EPS adj	Rs	4.63	5.70	11.49	14.18
EPS adj growth	%	-12.7	23.1	101.5	23.4
PER adj	x	33.7	27.3	13.6	11.0
Total DPS	Rs	0.24	0.33	0.49	0.49
Total div yield	%	0.2	0.2	0.3	0.3
ROA	%	6.1	6.9	8.4	7.6
ROE	%	9.9	8.7	10.8	11.9
EV/EBITDA	x	21.6	9.4	6.3	5.3
Net debt/equity	%	69.8	63.5	115.1	162.2
P/BV	x	3.3	1.5	1.4	1.2

IVRC 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, May 2010

(all figures in INR unless noted)

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31 May 2010

IVRCL Infrastructrue

Execution to bring cheers in FY11

Event

- IVRCL Infrastructure (IVRCL) declared its 4QFY10 and FY10 results, which were in line with our expectations. We maintain an Outperform rating on the stock with a target price of Rs220.

Impact

- **Results in line with estimates:** IVRCL reported revenues of Rs18.9bn in 4QFY10 and Rs54.92bn (standalone) in FY10 which were up 16% and 1% YoY, respectively. PAT stood at Rs0.85bn in 4QFY10 and Rs0.7bn in FY10. However, there was an extraordinary item of Rs1.4bn provisioning pertaining to previous years' tax which does not have any cash impact. Hence, the normalised PAT stood at Rs2.1bn in FY10. EBITDA margin has improved by 110bps in FY10 to 9.7%.
- **Strong order inflow leads to 63% increase in order backlog:** IVRCL has booked orders worth Rs141bn in FY10 which has led the order book to increase 63% YoY to Rs234bn. Consequently, the order book coverage ratio has risen to an all-time high of 4.2.
  - ⇒ **Andhra orders forms just 16% of order book:** Outstanding orders from Andhra Pradesh stand at Rs38bn. Even in this, only Rs11bn is on IVRCL's own books and the remaining Rs27bn have back-to-back contracts with sub-contractors. Receivable from AP has been reduced to Rs0.8bn on IVRCL's own books. Remaining receivables of Rs1.4bn from AP appear both as receivables (from AP government) and payables (to subcontractors), thus, having no impact on IVRCL's balance sheet.
- **Strong revenue growth should translate into earnings growth in FY11:** We expect a strong revival in execution for IVRCL, which should help it post revenue growth of 26% and EPS growth of 33% in FY11. We also expect the momentum in order inflow to remain and order book to increase to Rs275bn at end-FY11 (up 19% YoY).

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs220.00 based on a Sum of Parts methodology.
- Catalyst: Pickup in execution from 1QFY11 and incremental project wins.

Action and recommendation

- Attractively priced, to benefit from revival in execution: We believe that IVRCL is poised to benefit from the revival in execution in FY11 which should translate into healthy EPS growth of 33% in FY11. IVRCL is trading at 9.5x FY11 earnings adjusted for subs valuation. Given that order book growth continues to remain healthy, shrinking dependence of AP irrigation projects and value unlocking in subs, the stock continues to be very attractively priced, in our view.

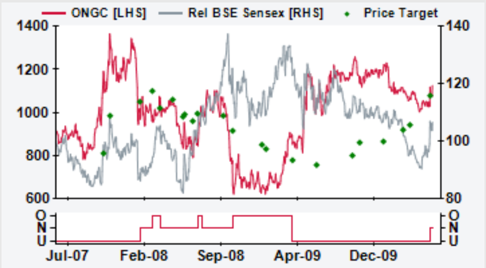
INDIA

ONGC IN		**Neutral**
Price 28 May 10		**Rs1,130.95**
12-month target	**Rs**	**1,078.00**
Upside/Downside	**%**	**-4.7**
Valuation - DCF	**Rs**	**1,078.00**
GICS sector		**Energy**
Market cap	**Rsbn**	**2,419**
30-day avg turnover	**US$m**	**41.2**
Market cap	**US$m**	**51,146**
Number shares on issue	**m**	**2,139**

Investment fundamentals

Year end 31 Mar		2010A	2011E	2012E	2013E
Total revenue	bn	1,034.4	1,457.8	1,478.9	1,500.4
EBIT	bn	273.8	366.8	387.9	401.4
EBIT growth	%	4.1	34.0	5.7	3.5
Recurring profit	bn	304.4	412.1	435.9	451.2
Reported profit	bn	194.0	268.3	284.7	293.8
EPS rep	Rs	90.72	125.42	133.11	137.38
EPS rep growth	%	-2.0	38.3	6.1	3.2
PER rep	x	12.5	9.0	8.5	8.2
Total DPS	Rs	42.00	42.00	42.00	42.00
Total div yield	%	3.7	3.7	3.7	3.7
ROA	%	17.9	22.4	20.9	19.8
ROE	%	21.6	28.6	26.9	24.7
EV/EBITDA	x	5.3	4.5	4.3	4.2
Net debt/equity	%	0.6	-1.9	-7.6	-13.6
P/BV	x	2.7	2.4	2.2	1.9

ONGC IN rel BSE Sensex performance, & rec history



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Source: FactSet, Macquarie Research, May 2010

(all figures in INR unless noted)

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31 May 2010

Oil and Natural Gas Corp.

Seesaw: Production vs Reserves

Event

- ONGC reported Q4 FY10 PAT of Rs37.8bn, up 95% YoY, but the bottom line fell short of our and consensus estimates due to a higher-than-expected annual subsidy burden of Rs115.5bn. Declining production and increasing subsidy are balanced by improving reserve accretions, as reported by the company. Hence, we maintain our Neutral rating and target price of Rs1078, and we await further details from the analyst meeting on 2 June 2010.

Impact

- **Subsidy burden burgeoned to Rs50bn.** ONGC's subsidy discount to oil marketing companies (OMCs) increased five times YoY to Rs50bn. Increased under-recoveries due to 31% YoY rise in crude prices and rupee depreciation were the causes of the higher burden.
- **Net revenues increased on higher net realisations.** ONGC reported Q4 FY10 net operating revenues of Rs210bn (up 44% YoY) on the back of an 18% increase in crude oil realisation in US dollar terms. Crude oil sales volumes increased 3% YoY but declined 6%QoQ. Gas production fell 13% QoQ. Net realisations (in local currency) declined 9% QoQ but rose 9% YoY.
- **Other income declined 67%.** ONGC reported a 67% decline in other income. The company has changed its accounting methodology for amortization of intangible assets from Written Down Value @40% to Straight Line over five years, mildly reducing amortization. However, it nevertheless reported a 5% YoY increase in depreciation, depletion and amortization (DDA) in Q4 FY10.
- **Production decline a concern:** A 2.8% decline in standalone crude production and an 8.4% decline in JV gas are partially offset by a 2.8% increase in standalone gas production.
- **Robust reserve replacement ratio (RRR):** Standalone ultimate (3P) reserve accretion of 82.98 MTOE yielded an RRR of 1.74x in FY10 vs 1.44x in FY09. We hope to learn more about the quality/source from the analyst meeting.
- **MRPL, a 72% refining subsidiary, reported flat QoQ profits** of Rs2.5bn against a PAT of Rs6.1bn a year ago. GRM decreased to US$5.25/bbl from US$7.54/bbl in Q4 FY10 but showed a minor QoQ improvement.

Earnings and target price revision

- Minor adjustments of 2% increases to FY11–12E PAT.

Price catalyst

- 12-month price target: Rs1,078.00 based on a DCF methodology.
- Catalyst: Clarity on subsidy sharing (Kirit Parikh committee recommendations).

Action and recommendation

- ONGC's subsidy burden continues to cap earnings. Our DCF-based target price of Rs1,078 represents downside of 4.7% from the current price of Rs1,131 (which corresponds to a constant crude price of approximately US$93/bbl); thus, we retain our Neutral rating.

MacQTel Asia Pac portfolio

Portfolio moves; Winners and losers

Event

- The MacQTel Asia Pac portfolio was down 2.3% for the week (Thursday closing, week of 20–27 May), outperforming the benchmark MSCI AP Telco index, which was down 2.6% but underperforming the broader market MSCI Asia Pacific Index, which was down 1.4% (all performance in US$). YTD 2010, the Asia-Pac telecoms sector has outperformed the broader market index, MSCI Asia Pac by 4.5%.

Impact

- **Winners:** For the second week in a row, the leaders were the Japanese Telcos – NTT (9432 JP, +8.8%) was the best performer, followed by KDDI (9433 JP, +3.2%) and NTT DoCoMo (9437 JP, +3.2%), a performance exactly in order of our preference of the Japanese Telecoms space. We have OP ratings on NTT and KDDI and a Neutral rating on NTT DoCoMo.
- **Losers:** MTNL (MTNL IN, -17.4%), Indosat (ISAT IJ, -12.1%), RCOM (RCOM IN, -10.6%), HTHK (215 HK, -10.1%) and Telecom NZ (TEL NZ, -10.0%) were the big losers followed by SK Telecom (017670 KS, -9.6%), Telekom Malaysia (T MK, -8.7%) and Telstra (TLS AU, -8.6%). We have Underperform ratings on MTNL and RCOM, Neutral on Indosat, HTHK, Telecom NZ and Telstra, and Outperform on SK Telecom and Telekom Malaysia.
- **Helping MacqTel Portfolio:** Underperformance by Underweights, China Unicom (762 HK, -6.6%), Maxis (MAXIS MK, -4.1%), RCOM (RCOM IN, -10.6%) and Telecom NZ (TEL NZ, -10.0%) helped. Outperformance by Overweights NTT (9432 JP, +8.8%) & KDDI (9433 JP, +3.2%) helped.
- **Hurting MacqTel Portfolio:** Underperformance by portfolio Overweights, Axiata (AXIATA MK, -7.0%), PLDT (TEL PM, -4.3%), SK Telecom (017670 KS, -9.6%) and KT Corp (030200 KS, -7.4%) hurt portfolio performance. Also, outperformance by Portfolio Underweight SoftBank (9984 JP, +0.02%) also hurt performance.
- **Portfolio moves:** None. We maintain an Overweight on Korea, Philippines, Indonesia, Singapore and Malaysia in our model portfolio. We reiterate our Underweight on Taiwan, Thailand, Australia/NZ, India, China and Japan.
- **News/Events next week:** Maxis reports 1Q results on 31 May followed by Axiata's analyst day on 1 June. In India, we continue to look for daily news flow on the BWA license auction. At the end of Day 3 of bidding, the price for the pan-India license is US$910m vs base price of US$380m. Competition is high with 11 bidders for just two slots. The amount of spectrum on offer in BWA is 20MHz (unpaired) on the 2300 MGHz spectrum band.

MacQTel Asia Pac portfolio top Overweights

Stock	Ticker	Rec	CP (lcy)	TP (lcy)	Upside	Analyst
Axiata Group	AXIATA MK	Outperform	3.7	4.3	15%	Prem Jearajasingam
PLDT	TEL PM	Outperform	2335.0	2745.0	18%	Ramakrishna Maruvada
SK Telecom	017670 KS	Outperform	159000.0	220000.0	38%	Chang Han Joo
Taiwan Mobile	3045 TT	Outperform	60.4	64.8	7%	Joseph Quinn
PT Telkom	TLKM IJ	Outperform	7600.0	10600.0	39%	Riaz Hyder

Share price data as of 27 May2010; Source: Bloomberg, Macquarie Research, May 2010

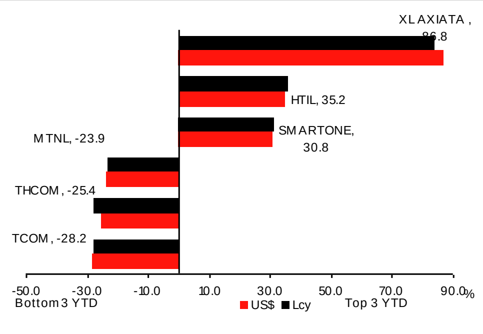
ASIA

MacQTel Asia Pac portfolio performance

	MacQTel PIPE	MSCI AP telco	MSCI APxJ telco	MSCI AP
Inception (127 May08)	-23.1%	-25.0%	-28.4%	-23.6%
YTD	-1.7%	-1.9%	2.8%	-6.3%
Week	-2.3%	-2.6%	-1.9%	-1.4%

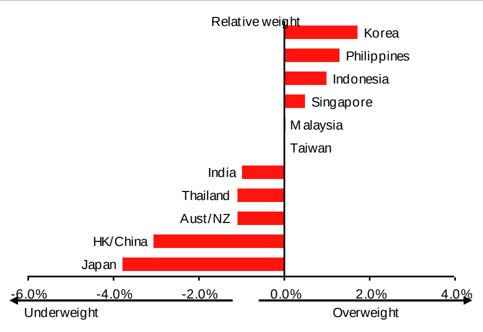
Share price data as of 27 May2010.
Source: Bloomberg, Macquarie Research, May 2010

Asia Telcos best and worst year to date



Source: Bloomberg, Macquarie Research, May 2010

MacQTel Asia Pac portfolio country relative weights vs MSCI AP Tel index



Source: Bloomberg, Macquarie Research, May 2010

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31 May 2010

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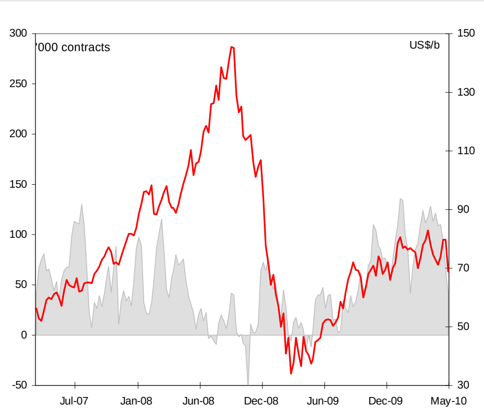
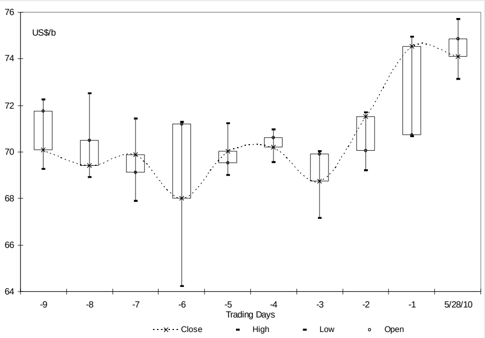
WTI net spec futures position vs price



Source: CFTC, Macquarie Research, May 2010

WTI futures two-week trading action



Source: Bloomberg, Macquarie Research, May 2010

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28 May 2010

Oil market: week in review

Sell in May...buy after Memorial Day?

- WTI crude oil futures finally reversed their fall after closing lower each week in May. The jump of 6% brought futures back above US$74/b, and the WTI structure is beginning to look stronger, with the differential to Brent having narrowed significantly. The US DOE report was bearish for inventories, but showed a much-needed draw at Cushing. The US dollar index continues to strengthen, but correlations to several major benchmarks (S&P500, US 10-Yr, EUR/USD, VIX) have broken down a bit since last week. The CFTC report showed yet another large decrease in non-commercial net long futures positions, and total open interest also continued its fall from recent highs.
- Like crude, the S&P 500 recovered this week, mostly on Thursday, to close the week up (barely) 0.2%. China's support for their euro holdings helped provide stability to push markets higher, though Spain's downgrade countered this move.
- **Looking forward**, we see a turnaround in fundamentals assisting in the reversal of this month-long correction. Non-OECD demand is already strong, and OECD growth forecasts have been ramped up. May has taken crude prices back to more-rational levels, and provides still further support for our bullish outlook.

CFTC Commitments of traders report

Disaggregated data on WTI crude oil contracts ('000 contracts)

	NYMEX WTI	1 week chg	1 month chg
Non-Commercial			
Net Position	40443	-26918	-68821
Producer/Merchant			
Long	185007	-10128	-66994
Short	403298	-3963	-73226
Net Position	-218291	-6165	6232
Bullish (%)	45.9%		
Swap Dealers			
Long	311882	30603	63112
Short	146681	-9101	-15735
Net Position	165201	39704	78847
Bullish (%)	212.6%		
Managed Money			
Long	183241	-8031	-14806
Short	107385	4527	56268
Net Position	75856	-12558	-71074
Bullish (%)	170.6%		
Other Reportables			
Long	77469	-10863	1282
Short	112882	3497	-971
Net Position	-35413	-14360	2253
Bullish (%)	68.6%		
Non-Reportables			
Long	81975	-14020	-14471
Short	69328	-7399	1787
Net Position	12647	-6621	-16258

Source: CFTC, Macquarie Research, May 2010

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GLOBAL

Global Media Comparisons

Weekly news analysis & global comps

See page 2 for Macquarie's Global Media Comps sheet

Theme of the week: Online advertising

- **Display ads up the ante.** This week saw the release of two more surveys forecasting the acceleration of online advertising, with IDC raising its 2010 US online ad market growth forecast to +19% (raised from +12.6% two months ago) and Strata reporting that 68% of ad agencies found their clients more focused on digital. What's interesting is display ads are beginning to gain a growing piece of the online pie from search, with Google (via YouTube) finally becoming a player. Meanwhile, the roles are shifting in search as well as Bing picks up share and limits Google's advance. Both are good for the market and for agencies – but for different reasons. *See p. 3.*

Our views on key news

- **Online Video – Google TV pact: Another threat to traditional broadcast?** This week, to much fanfare, Google unveiled Google TV as yet another player entering the IPTV imbroglio. Google announced it will be accompanied on this mission by a series of impressive partners, with Intel and Sony adding hardware clout to Google's well known software expertise. *See p.4*.
- **Studios and Exhibitors – Studios debate shrinking the theatrical window.** This year alone we have already seen a tinkering of the theatrical window for Alice in Wonderland and a delay in home entertainment rental windows for Netflix and Redbox as studios look for ways to buoy the struggling home video market, but last week at NCTA (a cable industry convention), Time Warner Cable proposed a plan to add another wrinkle into the mix. "Home theater on demand" would essentially shrink the theatrical window from four months to one by allowing consumers to watch a film at home just 30 days after theatrical release for $20-30. The benefits are obvious for pay TV distributors, but more complicated for studios and exhibitors. *See p. 4*.
- **Social Networking – Socialising still doesn't pay.** Publicis' Razorfish recently released a study showing that on average 11% of users' time online is spent on social media, but that only 3% of its clients' digital ad budgets were spent on social media display advertising, and 1% on non-display. This seems astounding: if a medium has a large enough audience that spends a lot of time consuming it, advertisers will likely have an extremely hard time ignoring it, and agencies will start seriously developing products and services for that medium. Look for social networking ads to mushroom. *See p. 5.*
- **Broadcast TV – CBS shareholder friendliness: a lesson for Japan.** Japanese broadcasters this year have announced double digit cuts to production costs but still lag their American counterparts in terms of cost control and willingness to return cash to shareholders. It looks as though cash-laden balance sheets of Japan's broadcasters are set to remain that way despite an improvement in the economic outlook as conservatism remains the first principle of business in Japan. *See p. 5.*

Key media stock calls

Top Longs	Rec		Close*		TP	Upside
Dreamworks Animation	O	$	29.39	$	48.00	63.3%
The News Corporation (F	O	$	13.44	$	21.00	56.3%
TV Asahi	O	¥	131,800	¥	196,000	48.7%
Nippon Television Netwo	O	¥	12,250	¥	18,000	46.9%
Fuji Media Holdings	O	¥	129,700	¥	183,000	41.1%
Interpublic	O	$	8.53	$	12.00	40.7%
Hakuhodo DY	O	¥	4,600	¥	6,400	39.1%
The News Corporation (C	O	$	15.45	$	21.00	35.9%
Alibaba.com	O	HK$	15.34	HK$	20.50	33.6%
Dentsu	O	¥	2,290	¥	3,000	31.0%
Yahoo Japan	O	¥	31,650	¥	41,000	29.5%
SBA Communications	O	$	33.23	$	43.00	29.4%
Aegis	O		117p		150p	27.9%
Omnicom	O	$	38.55	$	49.00	27.1%
BSkyB	O		576p		720p	25.1%
Time Warner Inc.	O	$	30.46	$	38.00	24.8%
Jupiter Telecom	O	¥	86,000	¥	105,000	22.1%
Pearson	O		948p		1150p	21.3%
Informa	O		377p		450p	19.4%
WPP	N		654p		775p	18.6%
UBM	O		509p		600p	18.0%
Time Warner Cable	O	$	54.47	$	64.00	17.5%
CBS Corporation	O	$	14.81	$	17.00	14.8%
Crown Castle	O	$	37.16	$	42.00	13.0%
The Walt Disney Compa	O	$	33.90	$	38.00	12.1%
Publicis	O	€	33.47	€	37.50	12.0%
Viacom Inc.	N	$	36.95	$	41.00	11.0%
Top Shorts	**Rec**		**Close***		**TP**	**Downside**
Reed Elsevier	U		475p		440p	-7.4%
Echostar	U	$	20.61	$	16.00	-22.4%

*Note US prices are intra-day

Source: Bloomberg, Macquarie Research, May 2010
Prices as of 28 May 2010

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28 May 2010

GLOBAL

Quantitative Analysis

Academic abstracts monitor

Macquarie Global Quant Conference

Our annual Macquarie Quant finance conference is rapidly approaching. This year we have invited a few of speakers to present on some of the most interesting recent academic papers we have come across. The line up of speakers includes a range of academics, practitioners, vendors and finance experts who will present some of their latest ideas which we think will be of interest to investment practitioners everywhere.

Save the date:

- Venue: Mandarin Oriental Hotel, Hong Kong
- Date: 29th- 30th of July 2010

The full schedule, speakers, registration details and invite will be sent out shortly. Please contact your Macquarie representative or the Macquarie Quant team for further information.

Some of this month's interesting ideas…

- **Algos gone wild** – With the 'flash crash' in early May there has been increased focus on the impact of high frequency automated trading on the financial markets and longer term investors in general. This makes the paper by Donefer quite topical in highlighting the risks that these trading strategies introduce to the wider market and to the more traditional investors.
- **Explaining long-shot bias** – Snowberg and Wolfers tackle the longshot bias anomaly. From analyzing a large dataset of horse racing data they suggest that the anomaly is due to a misperception of the odds rather than a risk seeking preference from gamblers.
- **Local institutional investors –** Baik, Kang and Kim find that locally more proximate institutional investors have an information advantage and tend to outperform other investors who are located further away from the stocks.
- **Style momentum** – Kim has an interesting working paper looking at style momentum / performance persistence across multiple asset classes. He found that cross asset style momentum was prevalent and stronger than style momentum within an asset class and suggests alternative explanations for the momentum anomaly.
- **Earnings management and earnings quality** – There were two papers this month looking into earnings quality. Jian, Petroni and Wang highlight that the CEO and CFO incentive structure is correlated to the likelihood earnings management and beating analyst forecasts. While Ettredge, Sholz, Smith and Sun find that earnings restatements are likely preceded by higher accruals / earnings management.
- **Stock market seasonality** – Dzhabarov and Ziemba reconfirm that the seasonality effect is present and has persisted well after becoming widely publicized, while Chen and Jindra investigate the impact of company size in conjunction with the seasonality effect.
- **And many more:** Read on for all of this month's topical articles.

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28 May 2010

GLOBAL

Commodities

Crude Oil	Current	Chg.	% Chg.
WTI-Near month (US$/Bbl)	$73.97	($0.58)	(0.8%)
12 month (US$/Bbl)	$77.97	($0.23)	(0.3%)
WTI-Lloyd Diff (US$/Bbl)	$24.13		
Brent (US$/Bbl)	$74.02	($0.64)	(0.9%)
Dubai (US$/Bbl)	$73.38	($0.64)	(0.9%)
Tapis (US$/Bbl)	$74.14	+$2.03	+2.8%
Natural Gas			
NYMEX-1m (US$/mmbtu)	$4.34	($0.01)	(0.1%)
12 month (US$/mmbtu)	$4.98	+$0.03	+0.7%
US Rockies (US$/mmbtu)	$3.97	+$0.14	+3.7%
AECO - Spot (C$/Gj)	$3.81	+$0.06	+1.6%
AECO - Fwd Gas Year (C$/Gj)	$4.79	+$0.04	+0.8%
UK - NBP spot (US$/mmbtu)	$5.34	($0.17)	(3.1%)
UK - NBP spot (£/therm)	£36.90	(£1.17)	(3.1%)
UK - NBP 1m (£/therm)	£36.65	(£0.05)	(0.1%)

Energy Market Indices

North America	Current	Chg.	% Chg.
S&P/TSX Oil & Gas Index	2,834	+1	+0.0%
S&P/TSX Oil & Gas Producers	3,047	+7	+0.2%
S&P/TSX Oil & Gas Integrateds	3,045	(13)	(0.4%)
S&P/TSX Oil & Gas Services	1,513	+5	+0.4%
S&P/TSX Energy Index	2,693	+2	+0.1%
OSX	172	(9)	(5.2%)
International			
Europe BE500 Energy Index	92	+1	+1.2%
UK FTSE O&G Index	7,889	(129)	(1.6%)
UK FTSE O&G Producers	7,509	(126)	(1.6%)
Asia Pacific O&G Producers	441	+7	+1.6%
Australia S&P/ASX300 Energy	15,277	+268	+1.8%
Hang Seng Energy Index	11,874	+403	+3.5%

Previous Day's Most Active

Region / Ticker	Price	Up/Dn	Vol (m)
United States			
HAL US	$24.83	▼ (9%)	37.1
XOM US	$60.46	▼ (2%)	32.1
SLB US	$56.15	▼ (7%)	27.8
Canada			
SU CN	$32.08	▼ (1%)	8.1
DAY-U CN	$11.10	-	7.2
ROA CN	$0.17	▲ 29%	6.5
Europe			
BP/ LN	494.80	▼ (5%)	71.9
MTA LN	1.78	▼ (14%)	36.8
ENI IM	15.35	▼ (1%)	31.7
Southeast Asia + Australia			
ENRG IJ	125.00	▲ 9%	2,738.9
ELSA IJ	440.00	▼ (3%)	156.8
857 HK	8.49	▲ 3%	155.5

Source: Bloomberg, Macquarie Research, May 2010

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31 May 2010

Macquarie Oil and Gas 360

Asia Pacific Edition – 31 May 2010

IOCL IN, ONGC IN, STO AU, GOM Moratorium Impact, ESV US, Alberta Royalties, TGL CN, EWD CN, RDSA LN, SQZ LN, VPP LN

Commodities

Crude oil

- **WTI:** Closed at US$74.55/b (+$2.46) /overnight: US$73.97/b (-$0.58).
- **Brent:** Closed at US$74.02/b (-$0.64).
- **Dubai:** Closed at US$73.38/b (+$2.03).

⇒ WTI fell to US$73.97/bbl after Fitch downgraded Spain's AAA credit rating, resulting in a weaker EUR/USD cross-rate. Concerns continue to mount that the European sovereign debt crisis will worsen. In US, weaker than expected consumer spending (which remained unchanged MoM), also negative impacted oil prices.

Natural Gas

- **NYMEX:** Closed at US$4.34/mmBtu (+$0.04) /overnight: US$4.34/mmBtu (-$0.01).
- **UK NBP:** 36.90p/therm (-1.17p) or US$5.34/mmBtu.

⇒ US natural gas futures rose by ~1% due to forecasts for warmer temperatures across the Midwest and Northeast.

Currency

- **Yen/US:** Closed at ¥/US91.17 (+0.50) /overnight: ¥/US90.97 (-0.20).
- **US/RMB:** Closed at US/RMB6.8315 (+0.0022) /overnight: US/RMB6.8313 (-0.0002).
- **US/EUR:** Closed at US/€1.2410 (-0.0032) /overnight: US/€1.2271 (-0.0139).
- **US/GBP:** Closed at US/£1.4580 (-0.0137) /overnight: US/£1.4433 (-0.0147).

Commodities Comment

Can silver keep its golden lining?

Feature article

- While silver prices have been well anchored by the gold price through the most recent turmoil, the lack of flows into ETFs leaves a significant hole in demand following the substantial flows last year. This means other investors will have to step up demand for silver to keep its golden lining in 2010.

Latest news

- Base metals closed the week with a slide, with nickel and copper down 2.1% and 0.6%, respectively, on the day. However, in post-LME ring trading most metals lost another 1–2% as Fitch downgraded Spain's debt rating to AA+. A bad May for metals prices can be highlighted by that fact that zinc's MoM fall in average prices, at 17%, is the third highest in the past 30 years.
- Friday's release from the US Commerce Department showed that consumer spending stalled in April after posting six consecutive months of gains. However, at 0.5% MoM real disposable income recorded its largest gain since 1H09 as a combination of greater labour market confidence and subdued inflation put more money in the back pocket. Furthermore, the Thomson Reuters/University of Michigan consumer confidence index moved up to 73.6 in May from 72.2 in April, reflecting greater belief in a sustained US recovery.
- While there has been some substantial swings in oil prices over the past week, thermal coal prices have been relatively stable. Physical prices from Newcastle drifted by 1.0% WoW to US$96.84/t, with one June spot trade at US94/t. Month forward prices for Richards Bay material rose 2.5% WoW; however API#2 fell by 2.2%, reflecting macroeconomic worries over Europe. Thus, after a brief sojourn into positive territory, the implied freight measurement closed the week at -$3.5/t.
- Chinese steel prices showed signs of stabilising this week after a month of falls. HRC prices ticked up Rmb30/t to Rmb4,395/t ($551/t ex VAT), while rebar dropped Rmb20/t to Rmb4,040/t ($507/t ex VAT). So far, higher-value-added products have performed better (or least less badly) as prices have fallen. CRC prices ended the week at Rmb6,065/t ($760/t), down just 3.0% from the mid-April peak, compared with the 7.3% drop from the peak exhibited by HRC and 9.2% from rebar.
- Chilean copper mine output increased by 6.4% YoY to ~455,000t in April 2010, according to INE, Chile's statistics institute. At first glance this is a firm result, although we await more detailed production data on a mine-by-mine basis, which will be published later, to see the source of the increase. In the first four months of the year, the country's total copper mine production was reported at ~1.72mt, marking a rise of 3.2% from the corresponding period a year ago. Chile produces about one-third of the world's total copper mine output.
- Japan's steel exports fell by 13.8% MoM in April to 42.1mt annualised, according to Ministry of Finance data. However, this does represent a 72% increase YoY and is in line with levels seen during 4Q09. By our calculations, exports represented 43.3% of Japan's crude steel production in the month, and apparent crude steel domestic consumption was 5.44mt, the highest since November 2008.

GLOBAL

LME cash price

	US ¢/lb	% Change day on day
Aluminium	91.3	-1.1
Copper	313.5	-0.6
Lead	82.7	0.4
Nickel	965.1	-2.1
Tin	809.2	-0.5
Zinc	86.4	-0.2

Other prices

		% Change day on day
Gold ($/oz)	1207.50	-0.3
Silver ($/oz)	18.53	0.9
Platinum ($/oz)	1555.00	1.3
Palladium ($/oz)	471.00	3.5
Oil WTI	73.29	-1.1
Cobalt (99.8%)	20.50	0.0
$US/€ exchange rate	1.23	-0.3
US$/A$ exchange rate	0.85	-0.3

LME/COMEX stocks

	Tonnes	Change
LME Aluminium	4,561,400	-5,225
LME Copper	476,725	-1,050
Comex Copper	92,200	145
Lead	190,600	200
Nickel	138,504	-282
Tin	20,060	-130
Zinc	619,000	-750

Source: LME, Comex, Nymex, SHFE, Metal Bulletin, Reuters, LBMA, Macquarie Research, May 2010

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31 May 2010

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INDIA

Market performance

Including the quarterly results calendar

Market performance

	Last	% chg 1D	% chg YTD
BSE Sensex	16,863	1.2	-3.4
NSE NIFTY	5,067	1.3	-2.6
CNX Mid-cap	7,691	1.9	3.5
S&P 500	1,103	3.3	-1.1
NASDAQ	2,278	3.7	0.4
FTSE 100	5,210	0.3	-3.8
NIKKEI - 225	9,763	1.3	-7.4

Source: Bloomberg, Macquarie Research, May 2010

Fixed income, currencies, commodities

	Last	% chg 1D	% chg YTD
10-year govt bond	7.5	1.5	-1.5
Interbank rate	4.1	8.7	23.3
US$1 = Rs	46.4	2.1	0.4
Gold (US$/oz)	1212.9	0.0	10.6
Crude (US$/bbl)	74.2	0.3	-3.9

Source: Bloomberg, Macquarie Research, May 2010

ADR/GDR (US$)

	Last price	% chg 1D	Prem/Disc
Tata Motors	17.1	8.7	5.4
HDFC Bank	141.3	8.2	15.1
ICICI Bank	37.3	7.0	-0.1
Wipro	21.7	6.9	51.4
Sterlite Industries	14.3	5.2	-3.0
Satyam	5.3	4.5	40.7
Infosys	57.9	4.2	0.3
Dr Reddy	28.6	4.1	-3.2
MTNL	2.6	4.1	5.6
Cognizant Technologies	50.8	3.8	NA
Tata Steel (GDR)	11.0	2.8	2.6
Ranbaxy (GDR)	9.1	2.7	-1.8
Reliance Industries (GDR)	44.9	2.0	0.4
SBI (GDR)	96.0	1.7	-0.7
Satyam Infoway	1.4	0.7	NA
Rediff.com	2.1	0.0	NA

Source: Bloomberg, Macquarie Research, May 2010

Daily net flows (US$m)

	Date	Last	MTD	YTD
Foreign funds equity (Net)	25/05/2010	-30.7	-2254.1	4155.5
Indian Mutual funds equity (Net)	25/05/2010	-9.3	-183.0	-1750.1
FII Net stock futures	25/05/2010	-30.7	-2254.1	4155.5
FII Net index futures	25/05/2010	-9.3	-183.0	-1750.1

Source: Bloomberg, Macquarie Research, May 2010

Derivatives (open interest)

(US$)	Last	% chg 1D	% chg YTD
Stock futures (21/05)	7860.4	2.8	6.5
Index futures (21/05)	4632.5	-4.9	12.4

Market turnover

	US$ m	% chg 1D
BSE turnover	765	15.3
NSE turnover	2,800	-3.9

BSE (Top 5)

Top Gainers	Last price	% chg 1D
Reliance Communi	147.4	5.9
Sterlite	681.7	5.8
DLF	280.1	3.5
Mahindra & Mahindra	546.0	3.3
Jaiprakash Associates	127.2	2.7

BSE (Bottom 5)

NTPC	201.1	1.9
Hindalco	150.9	1.7
HLL	236.4	1.4
Reliance	1036.7	1.4
Infosys	2677.5	1.3

Source: Bloomberg, Macquarie Research, May 2010

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31 May 2010

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.

4Q FY10 results calendar

Mon	Tue	Wed	Thurs	Fri	Sat	Sun
03 May	**04 May**	**05 May**	**06 May**	**07 May**	**08 May**	**09 May**
HDFC JSW Steel Idea Cellular	Jindal Steel and Power		Dr. Reddy's Laboratories Punjab National Bank Union Bank of India	Bank of India Cipla ICSA	Dish TV India	
10 May	**11 May**	**12 May**	**13 May**	**14 May**	**15 May**	**16 May**
	Hindalco Industries	Bajaj Auto	Crompton Greaves India	National Aluminium Company DLF	Ackruti City Patel Engineering Grasim Industries Reliance Communications	
17 May	**18 May**	**19 May**	**20 May**	**21 May**	**22 May**	**23 May**
Larsen & Toubro Mundra Port & Special Economic Zone GAIL India					NMDC	
24 May	**25 May**	**26 May**	**27 May**	**28 May**	**29 May**	**30 May**
Sun Pharmaceuticals	Aban Offshore Bharat Heavy Electricals Nagarjuna Construction **Provogue**	Oil India Tata Steel	Bharat Petroleum Cairn India Tata Motors	Indian Oil ONGC Anant Raj Industries Housing Development and Infrastructure Punj Lloyd Steel Authority of India Unitech	GMR Infrastructure IVRCL Suzlon Energy	Gujarat NRE Coke Jaiprakash Associates

Source: Macquarie Research, May 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).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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