Unitech Ltd UT IN

Sandeep Mathew
(91 22) 6628 2431

India
Financials/Real Estate

Change in Numbers
10 November 2008

SO WHAT? THE BNP PARIBAS ANGLE

- High exposure to residential pricing risk with 81% of land bank in this segment.
- Higher declines in price or volumes will affect ability to service debt.
- Employing global property-trough valuations of 5x 1-yr forward PE to value Unitech.

Net Profit 09 ....INR15.4b
.........................(From INR24.8b)

Diff from Consensus..22.6%
Consensus (mean) INR19.9b
Consensus (momentum) .... ↓

Target Price INR40.00
.........................(From INR253.00)

Diff from Consensus(77.1%)
Consensus (median)....INR175.00
Consensus (momentum)........... ↓

Current Price INR50.80
Upside/(Downside)........... (19.6%)

REDUCE
(Unchanged)

Recs in the Market
Positive 4
Neutral 5
Negative 8
Consensus (momentum)........... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- **Core business under pressure: Unitech remains highly exposed to pricing risks with an uncomfortably high leverage.**
- **Telenor deal funds wireless capex for 2 years, however, no significant cash inflow to property business.**
- **Maintain REDUCE with TP of INR40. Employing 20-year global property trough multiples (1-year forward P/E of 5x).**

Leverage + Volatility = Dynamite!

Leverage remains uncomfortably high

Unitech has one of the highest debt-equity ratio among Indian real estate developers. Even adjusting telecom-related debt, gross debt of property business is approximately INR80b. The company's interest coverage ratio (EBITDA/Gross interest) remains dangerously high at 2.2x declining to 1.9x by FY10. We believe that weak pricing and slow execution are likely to stretch Unitech's balance sheet. The company has launched only about five new projects (6m sqft) this year. We are still skeptical about the company's ability to drive volumes in the residential segment in FY09 due to weak market sentiment.

Telenor deal – hardly improves cash-flow situation

The Telenor deal hardly improves Unitech's tight cash-flow situation. Unitech's cash inflow will benefit by merely USD60m from the first tranche of equity infusion. Repayment of shareholder's loans of approx USD150m by Unitech Wireless to Unitech is only subject to exercise of an option. We do not anticipate any further cash inflow to Unitech from the deal. However, the deal sufficiently capitalizes Unitech Wireless to fund its capex requirements over next two years.

Cutting volumes + prices to reflect weak execution

We are introducing our first earnings cut since our March 2008 initiation on the back of poor execution in 1HFY09. Penetration of new markets has been significantly delayed exposing Unitech to increased competition. It is also affected by the lack of full possession of land bank and a large chunk secured by loans, which significantly dents near-term monetization potential through plot sales. We have cut our volume recognition (under PoCM) by 44% and 45% for FY09 and FY10. We are also building 10% price correction for the next three years. Our earnings consequently decline by 38% and 62% in FY09 and FY10, respectively.

Shifting to bear market valuations as earnings decline

We now value Unitech at 5x (12x earlier) one-year forward earnings. Our multiple is consistent with global trough property bear market multiples over a 20-year horizon. We have revised our PT to INR40/share. Our NAV of INR76 incorporates 10% pricing correction over next three years and maximum yearly sales in any city not exceeding 6m sqft.

BNP Paribas research is available on Thomson Reuters, Bloomberg, and on http://equities.bnpparibas.com. Please contact your salesperson for authorisation. Please see the important notice on the back page.

Sandeep Mathew (91 22) 6628 2431
BNP Paribas Securities India Pvt Ltd
sandeep.mathew@asia.bnpparibas.com

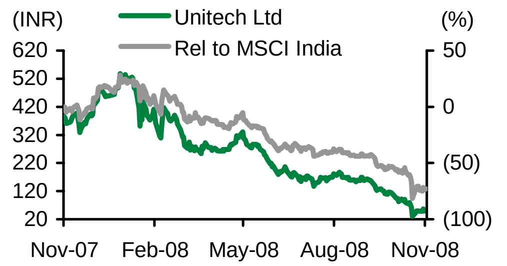
Avneesh Sukhija (91 22) 6628 2432
BNP Paribas Securities India Pvt Ltd
avneesh.sukhija@asia.bnpparibas.com

Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	42,801	48,819	52,807	69,134
Reported net profit	16,613	15,358	12,886	12,816
Recurring net profit	16,632	15,358	12,886	12,816
Previous rec net profit	17,705	24,758	34,272	—
Chg from previous (%)	(6.1)	(38.0)	(62.4)	—
Recurring EPS (INR)	10.25	9.46	7.94	7.89
Previous rec EPS	10.91	15.25	21.11	—
Rec EPS growth (%)	26.9	(7.7)	(16.1)	(0.5)
Recurring P/E (x)	5.0	5.4	6.4	6.4
Dividend yield (%)	0.5	—	—	—
EV/EBITDA (x)	5.7	6.7	7.9	8.1
Price/book (x)	2.3	1.6	1.3	1.1
ROE (%)	59.5	35.3	22.5	18.3
Net debt/equity (%)	192.2	166.5	138.6	126.6

Sources: Unitech Ltd; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	1,692
12m avg daily turnover (USD m)	43.6
Free float (%)	25
Major shareholder	Promoter (75%)
12m high/low (INR)	538.25/30.10
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

BNP PARIBAS
Corporate & Investment Banking

Leverage likely to remain a big negative overhang

Unitech's gross debt – related to the property business alone – amounted to approximately INR80b in 2QFY09, implying a debt-equity of approximately 1.8x for core property business. In addition, the company has approximately INR20b of debt related to the telecom business.

Working capital remains tight despite high exposure to residential segment.

We estimate the interest coverage ratio of Unitech to be very low, at 2.2x and we anticipate it will continue to deteriorate over FY10. Further, we believe operational cash flow may not be supportive of large-scale debt repayments. necessitating debt refinancing, which is likely to be expensive.

Exhibit 1: Key Balance Sheet Figures (2008 vs 1HFY09)

Year-end 31 Mar	2008 (INR m)	1H09 (INR m)	Change (%)
Gross debt	85,524	~100,000	16.9
Cash	14,083	16,000	13.6
Receivables	7,460	14,000	87.7

Sources: Unitech Ltd; BNP Paribas estimates

Increase in gross debt for the company in 1H09 suggests that the working capital cycle is yet to turn positive. This is despite a significant proportion of revenue being recognized from the residential business where the working capital cycle is considered neutral.

Weak balance sheet might necessitate PE funding.

Unitech's weakening balance sheet is likely to force it to partner with private equity players and/or other developers to execute projects that will come at a higher cost for Unitech shareholders (equity dilution at project level).

Telenor Deal – funds wireless capex but no cash inflow boost

Telenor has signed a definitive agreement to pick up a 60% stake in Unitech Wireless. It will invest approximately USD1.07b in equity in four tranches and assume an additional USD0.4b debt in the wireless venture as part of its capital investment.

Our Telecom team believes that the minimum capex requirement for Unitech to roll-out its pan-India GSM network will come to the tune of USD1.8b-2.0b. To date, Unitech has invested INR1.38b in equity and INR20b in debt in the venture. Thus, Telenor's investment sufficiently capitalizes the Wireless venture for the next two years.

Wireless business is well capitalized for next 2 years.

However, there will be minimal cash inflow in Unitech's core real estate business. Unitech will receive approximately USD60m from the first tranche of equity infusion. Additional repayment of shareholder's loan of approximately USD150m by Unitech Wireless to Unitech is only subject to exercise of an option.

Our telecom team believes that Telenor with its prior subcontinent experience is a good partner for Unitech. However, they have their concerns on the ability of the new venture to penetrate successfully purely on a 2G-based strategy.

Cutting volume and prices to reflect weak execution

We are cutting our volume assumptions for Unitech as we believe its strategy to drive volume by lowering ticket sizes is unlikely to succeed in the near-term. Our key concern is inventory build-up in its core markets of NCR and Kolkata. End-user preference is likely to shift to finished products as a result of the increasing concerns on developer's liquidity position. Our channel checks reveal that investor demand has reduced significantly, and this will reduce the absorption of new launches.

Further, in Unitech's case we anticipate its pricing power in new regional markets will be relatively weak due to its late entry. We are building in 10% pricing correction over the next three years for Unitech.

We are cutting our volume assumptions (recognized on PoCM) by 44% and 45% respectively for FY09 and FY10 to reflect weak execution. Our revenue for FY09 and FY10 declines by 31% and 46% respectively, and our EPS declines by 38% and 62%.

Exhibit 2: Volume Revision

	Previous		Revised		*Change*	
Year-end 31 Mar	**2009E**	**2010E**	**2009E**	**2010E**	**2009E**	**2010E**
	(m sqft)	**(m sqft)**	**(m sqft)**	**(m sqft)**	***(%)***	***(%)***
Particulars						
Residential – Apartments	19.46	24.29	11.71	10.98	(40)	(55)
Residential – Villas	0.86	3.03	0.43	1.61	(50)	(47)
Residential – Plots	8.41	8.41	4.83	5.59	(43)	(34)
Commercial	3.17	5.83	1.02	2.46	(68)	(58)
Retail	2.06	3.91	1.04	4.28	(50)	9
Total	**33.96**	**45.47**	**19.02**	**24.92**	**(44)**	**(45)**

Sources: Unitech Ltd; BNP Paribas estimates

Sensitivity analysis

Impact of lower volumes

Given the high leverage, Unitech remains highly exposed to the impact of lower volumes. Our current estimates factor flat residential volumes in million sqft. However, a 10% decline in projected residential volumes affects EBITDA by 12% and consequently reduces the interest-coverage ratio to 1.9.

Exhibit 3: Volume Sensitivity

(INR m)		**2009E**	**2010E**	**2011E**
EBITDA	**(10%)**	23,876	24,835	27,772
	(20%)	21,420	22,055	24,677
	(30%)	18,964	19,274	21,583
	(40%)	16,507	16,494	18,488
(INR/share)		**2009E**	**2010E**	**2011E**
EPS	**(10%)**	8.89	8.52	9.54
	(20%)	7.68	7.15	8.01
	(30%)	6.47	5.78	6.49
	(40%)	5.25	4.41	4.96

Source: BNP Paribas estimates

Impact of lower prices

A greater-than-anticipated decline in prices amplifies the negative impact, since margins get compressed due to higher cost and lower sale price. Unitech is highly exposed to rapid pricing deterioration in the market as the table below indicates.

Exhibit 4: Price Sensitivity

(INR m)		**2009E**	**2010E**	**2011E**
EBITDA	**(5%)**	26,333	26,190	30,567
	(10%)	24,314	21,632	21,936
	(15%)	22,295	17,321	14,212
	(20%)	20,276	13,256	7,346
(INR/share)		**2009E**	**2010E**	**2011E**
EPS	**(5%)**	10.46	10.18	12.15
	(10%)	9.46	7.94	7.89
	(15%)	8.47	5.81	4.09
	(20%)	7.47	3.81	0.70

Source: BNP Paribas estimates

Limited ability to recycle capital as land bank is yet to be fully possessed

Unitech has bought a large portion of its land bank from government auctions. These land parcels have to be built as per a defined master plan and cannot be sold, which will limit Unitech's ability to monetize the land bank in case of a down turn.

Further, Unitech is still in process of acquiring various land parcels which currently constitute its land bank in Noida, Greater Noida, Agra, Varanasi, Dankuni and Vishakapatnam, which together constitute 65% of its total land bank.

Exhibit 5: Land Bank Break Up

Region	Area (m sqft)	% of total land bank (%)	Land acquisition status
Gurgaon	65.36	7.4	Acquired
Delhi	0.22	nm	Acquired
Faridabad	0.88	0.1	Acquired
Noida	35.02	4.0	Partially acquired
Greater Noida	28.08	3.2	Partially acquired
Kolkata	318.67	36.2	Partially acquired
Chennai	120.74	13.7	Acquired
Kochi	41.56	4.7	Acquired
Bangalore	9.67	1.1	Acquired
Hyderabad	38.33	4.4	Acquired
Mohali	13.49	1.5	Acquired
Agra	37.89	4.3	Partially acquired
Varanasi	42.16	4.8	Partially acquired
Vishakapatnam	108.89	12.4	Government yet to handover
Bhubhaneshwar	1.00	0.1	Acquired
Mumbai	18.00	2.0	Slum-rehab
Total	**879.97**	**100.0**	

Sources: Unitech Ltd; BNP Paribas estimates

Increasing project delays hamper growth

Unitech's plans to enter Hyderabad, Chennai, Cochin, have yet to gather momentum as the company has not received necessary approval with delays of nearly two years. The company is also facing significant execution delays in its commercial and residential projects – in excess of 12 months.

Exhibit 6: Sample List Of Delayed Projects

Project	Location	Saleable area (m sqft)	Expected completion	Minimum delay
Fresco: Phase I – 12 towers	Gurgaon	1.24	Jun-09	Six months
Fresco: Phase II – 4 towers	Gurgaon	0.41	Dec-09	Six months
Horizon	Kolkata	0.86	June-09	Six months
Grande – Phase I	Noida	3.24	July-10	Six months

Sources: Unitech Ltd; BNP Paribas estimates

Exhibit 7: List Of Key South Indian Markets And Delays In Launches

		Launch date		
Projects	**Total saleable area (m sqft)**	**Scheduled**	**Expected**	**Minimum delay**
Chennai	42.52	Nov 06 – Jun 07	Dec 08	2 years
Hyderabad	10.60	Dec 06 – Feb 07	Jan'09	2 years
Cochin	19.85	Feb 07 – Dec 07	FY10	2-3 years
Bangalore	5.77	Jan-07	FY10	2-3 years
Total	**78.74**			

Source: BNP Paribas estimates

Shifting to bear market trough valuations

Our analysis of previous trough multiples in property bear markets suggest a trough multiple of 5x 1-yr forward P/E. We have consequently revised our P/E multiple from 12x to 5x to reflect the rapid deterioration of property market fundamentals and increased risk aversion to the sector.

Our multiples are in-line with property comps in China and India, which currently trade at FY09E P/E multiples of 6x and 7x respectively. We have arrived at our price target of INR40 using the P/E trough multiple of 5x on our FY10E EPS estimate of INR7.94.

NAV – excluding projects with limited visibility and long gestation

Our NAV of INR76 per share includes only projects where a majority of the land bank is in possession of the company. Consequently, we have provided option values to longer gestation projects such as Dankuni, Agra, Varanasi and Vishakapatnam.

Exhibit 8: Unitech Real Estate NAV

Particulars	NAV	
	(INR m)	(INR/share)
Residential	72,318	45
Commercial	73,798	45
Retail	33,437	21
Others	14,753	9
Net debt	(71,441)	(44)
NAV	**122,865**	**76**
Option value		
Dankuni	10,033	6
Agra	9,345	6
Varanasi	13,009	8
Vishakapatnam	14,516	9
Total Option value	46,903	29

Note: Others include NAV of Maintenance income, Hospitality & amusement and Asset management fee
Source: BNP Paribas estimates

Exhibit 9: NAV Assumptions

WACC (%)	16.0
Issued shares (m)	1,623
Tax rate (%)	20.0
Price growth – FY09-11 (%)	(10.0)
Price growth – FY12 onwards (%)	5.0
Cost growth for all the years (y-y %)	5.0
Cap rate (%)	12
Bookings (%)	100

Sources: Company reports; BNP Paribas estimates

Exhibit 3: NAV Sensitivity To Delays

(INR/share)		WACC				
		14%	15%	16%	17%	18%
Project delays (Years)	-1	70	64	59	53	48
	0	86	80	**76**	70	65
	1	70	64	59	53	48
	NAV impact (%)			(22)		

Source: BNP Paribas estimates

Exhibit 4: NAV Sensitivity To Property Price Decline

	Price change			
	(5%)	(10%)	(15%)	(20%)
NAV/share (INR)	104	**76**	52	36

Source: BNP Paribas estimates

FINANCIAL STATEMENTS

Unitech

Profit and Loss (INR m) Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	33,881	42,801	48,819	52,807	69,134
Cost of sales ex depreciation	(12,728)	(16,051)	(21,062)	(27,396)	(42,418)
Gross profit ex depreciation	21,153	26,750	27,757	25,412	26,716
Other operating income	-	-	-	-	-
Operating costs	(1,874)	(3,062)	(3,443)	(3,780)	(4,780)
Operating EBITDA	**19,279**	**23,687**	**24,314**	**21,632**	**21,936**
Depreciation	(73)	(205)	(311)	(424)	(472)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	**19,205**	**23,482**	**24,003**	**21,208**	**21,464**
Net financing costs	(1,287)	(2,804)	(4,805)	(5,100)	(5,444)
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	**17,919**	**20,678**	**19,198**	**16,107**	**16,020**
Tax	(4,810)	(3,986)	(3,840)	(3,221)	(3,204)
Profit after tax	**13,108**	**16,692**	**15,358**	**12,886**	**12,816**
Minority interests	**(11)**	**(129)**	**-**	**-**	**-**
Preferred dividends	-	-	-	-	-
Other items	18	50	-	-	-
Reported net profit	**13,115**	**16,613**	**15,358**	**12,886**	**12,816**
Non recurring items & goodwill (net)	**(13)**	**19**	**-**	**-**	**-**
Recurring net profit	**13,102**	**16,632**	**15,358**	**12,886**	**12,816**
Per share (INR)					
Recurring EPS *	8.07	10.25	9.46	7.94	7.89
Reported EPS	8.08	10.23	9.46	7.94	7.89
DPS	0.25	0.25	-	-	-
Growth					
Revenue (%)	255.0	26.3	14.1	8.2	30.9
Operating EBITDA (%)	880.3	22.9	2.6	(11.0)	1.4
Operating EBIT (%)	935.6	22.3	2.2	(11.6)	1.2
Recurring EPS (%)	649.8	26.9	(7.7)	(16.1)	(0.5)
Reported EPS (%)	639.1	26.7	(7.6)	(16.1)	(0.5)
Operating performance					
Gross margin inc depreciation (%)	62.2	62.0	56.2	47.3	38.0
Operating EBITDA margin (%)	56.9	55.3	49.8	41.0	31.7
Operating EBIT margin (%)	56.7	54.9	49.2	40.2	31.0
Net margin (%)	38.7	38.9	31.5	24.4	18.5
Effective tax rate (%)	26.8	19.3	20.0	20.0	20.0
Dividend payout on recurring profit (%)	3.1	2.4	-	-	-
Interest cover (x)	14.9	8.4	5.0	4.2	3.9
Inventory days	17.8	11.0	11.8	14.3	13.3
Debtor days	13.4	38.0	87.1	126.4	111.8
Creditor days	1120.1	1495.3	1444.2	1188.1	875.9
Operating ROIC (%)	35.1	17.5	12.5	9.7	9.0
Operating ROIC - WACC (%)	18.5	0.9	(4.1)	(6.9)	(7.6)
ROIC (%)	32.3	15.7	11.2	8.8	8.3
ROIC - WACC (%)	15.7	(0.9)	(5.4)	(7.8)	(8.4)
ROE (%)	116.3	59.5	35.3	22.5	18.3
ROA (%)	16.0	10.3	7.8	6.4	5.8

** Pre exceptional, pre-goodwill and fully diluted*

Sources: Unitech Ltd; BNP Paribas estimates

Revenue to be driven by residential segment until FY10

Interest cost lower due to capitalisation

Declining margins due to higher mid income launches

Gross interest cover is 2.2x since interest is capitalized

Cash Flow (INR m) Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	13,102	16,632	15,358	12,886	12,816
Depreciation	73	205	311	424	472
Associates & minorities	11	129	-	-	-
Other non-cash items	-	-	-	-	-
Recurring cash flow	**13,186**	**16,966**	**15,670**	**13,310**	**13,288**
Change in working capital	3,983	16,680	(28,415)	(14,635)	(19,726)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(5,218)	(24,810)	(2,000)	(2,000)	(2,000)
Free cash flow to equity	**11,952**	**8,836**	**(14,746)**	**(3,325)**	**(8,439)**
Net acquisitions & disposals	(2,564)	(3,409)	-	-	-
Dividends paid	(185)	(475)	(475)	-	-
Non recurring cash flows	(33,597)	(47,000)	-	-	-
Net cash flow	**(24,393)**	**(42,047)**	**(15,221)**	**(3,325)**	**(8,439)**
Equity finance	1,296	560	-	-	-
Debt finance	29,425	45,343	2,746	3,325	8,439
Movement in cash	**6,328**	**3,855**	**(12,475)**	**(0)**	**-**
Per share (INR)					
Recurring cash flow per share	8.12	10.45	9.65	8.20	8.19
FCF to equity per share	7.36	5.44	(9.08)	(2.05)	(5.20)

Tight working capital likely to necessitate PE deals which maybe detrimental to shareholders

Balance Sheet (INR m) Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	20,403	37,326	48,727	49,397	43,586
Working capital liabilities	(48,959)	(82,562)	(84,114)	(94,230)	(109,359)
Net working capital	**(28,555)**	**(45,236)**	**(35,387)**	**(44,833)**	**(65,773)**
Tangible fixed assets	94,595	167,095	182,350	203,007	241,201
Operating invested capital	**66,039**	**121,859**	**146,963**	**158,174**	**175,428**
Goodwill	1,126	1,126	1,126	1,126	1,126
Other intangible assets	-	-	-	-	-
Investments	4,548	14,165	14,165	14,165	14,165
Other assets	-	-	-	-	-
Invested capital	**71,713**	**137,150**	**162,254**	**173,465**	**190,719**
Cash & equivalents	(10,227)	(14,083)	(1,608)	(1,608)	(1,608)
Short term debt	-	-	-	-	-
Long term debt *	40,397	85,524	88,269	91,594	100,033
Net debt	**30,170**	**71,441**	**86,662**	**89,986**	**98,425**
Deferred tax	20	60	60	60	60
Other liabilities	21,566	28,485	23,485	18,485	14,485
Total equity	19,944	36,005	50,888	63,774	76,590
Minority interests	13	1,159	1,159	1,159	1,159
Invested capital	**71,713**	**137,150**	**162,254**	**173,465**	**190,719**

** Includes convertibles and preferred stock which is being treated as debt*

Per share (INR)					
Book value per share	12.29	22.18	31.35	39.28	47.18
Tangible book value per share	11.59	21.49	30.65	38.59	46.49
Financial strength					
Net debt/equity (%)	151.2	192.2	166.5	138.6	126.6
Net debt/total assets (%)	23.0	30.6	34.9	33.4	32.6
Current ratio (x)	0.6	0.6	0.6	0.5	0.4
CF interest cover (x)	14.3	13.0	(1.7)	0.7	(0.2)

High gearing versus industry average of 0.65x

Valuation	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	6.3	5.0	5.4	6.4	6.4
Recurring P/E @ target price (x) *	5.0	3.9	4.2	5.0	5.1
Reported P/E (x)	6.3	5.0	5.4	6.4	6.4
Dividend yield (%)	0.5	0.5	-	-	-
P/CF (x)	6.3	4.9	5.3	6.2	6.2
P/FCF (x)	6.9	9.3	neg	neg	neg
Price/book (x)	4.1	2.3	1.6	1.3	1.1
Price/tangible book (x)	4.4	2.4	1.7	1.3	1.1
EV/EBITDA (x) **	4.2	5.7	6.7	7.9	8.1
EV/EBITDA @ target price (x) **	3.5	4.9	6.0	7.1	7.3
EV/invested capital (x)	1.6	1.1	1.0	1.0	1.0

** Pre exceptional, pre-goodwill and fully diluted*
*** EBITDA includes associate income and recurring non-operating income*

Sources: Unitech Ltd; BNP Paribas estimates

DISCLAIMERS & DISCLOSURES

This report was produced by a member company of the BNP Paribas Group ("Group"). This report is for the use of intended recipients only and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without our prior written consent. By accepting this report, the recipient agrees to be bound by the terms and limitations set out herein.

The information contained in this report has been obtained from public sources believed to be reliable and the opinions contained herein are expressions of belief based on such information. No representation or warranty, express or implied, is made that such information or opinions is accurate, complete or verified and it should not be relied upon as such. This report does not constitute a prospectus or other offering document or an offer or solicitation to buy or sell any securities or other investments. Information and opinions contained in this report are published for reference of the recipients and are not to be relied upon as authoritative or without the recipient's own independent verification or taken in substitution for the exercise of judgement by the recipient. All opinions contained herein constitute the views of the analyst(s) named in this report, they are subject to change without notice and are not intended to provide the sole basis of any evaluation of the subject securities and companies mentioned in this report. Any reference to past performance should not be taken as an indication of future performance. No member company of the Group accepts any liability whatsoever for any direct or consequential loss arising from any use of the materials contained in this report.

The analyst(s) named in this report certifies that (i) all views expressed in this report accurately reflect the personal views of the analyst(s) with regard to any and all of the subject securities and companies mentioned in this report and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed herein.

This report is prepared for professional investors and is being distributed in Hong Kong by BNP Paribas Securities (Asia) Limited to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent. BNP Paribas Securities (Asia) Limited, a subsidiary of BNP Paribas, is regulated by the Securities and Futures Commission for the conduct of dealing in securities and advising on securities. This report is being distributed in the United Kingdom by BNP Paribas London Branch to persons who are not private customers as defined under U.K. securities regulations. BNP Paribas London Branch, a branch of BNP Paribas, is regulated by the Financial Services Authority for the conduct of its designated investment business in the U.K. This report is being distributed in the United States by BNP Paribas Securities Corporation to U.S. Persons as defined under U.S. securities regulations or by a member of the Group that is not registered as a U.S. broker-dealer to major U.S. institutional investors. BNP Paribas Securities Corporation, a subsidiary of BNP Paribas, is a broker-dealer registered with the Securities and Exchange Commission. BNP Paribas Securities Corporation accepts responsibility for the contents of this report only where the report has been distributed by it to U.S. recipients.

Distribution or publication of this report in any other places to persons which are not permitted under the applicable laws or regulations of such places is strictly prohibited.

Recommendation structure

All share prices are as at market close on 7 November 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.