

BP acquiring 30% in RIL's E&P assets to help re-rate RIL's E&P

BP to take 30% stake in RIL's 23 oil & gas blocks; Buy

Reliance Industries (RIL) and BP Plc (BP) today announced that BP will take 30% interest in 23 oil & gas blocks in India including the producing KG D6 block. The implied value of RIL's E&P assets (based on consideration BP is paying for 30% stake) is in line with our valuation of RIL's E&P. However, RIL's share price factors a much lower valuation. This deal should help re-rate RIL's E&P valuation.

To pay US\$7.2bn for 30% stake; may pay another US\$1.8bn

BP will acquire 30% stake in 23 oil & gas blocks including 19 in India's eastern offshore region. BP will pay US\$7.2bn for 30% interest in the 23 blocks. BP may also pay another US\$1.8bn as future performance payments based on exploration success that results in development of commercial discoveries.

Implied value US\$22-29bn; E&P valued by us at US\$26bn

BP would pay US\$7.2-9.0bn for 30% stake implying value of US\$27-30bn for 100% stake and US\$23.4-29.3bn for RIL's 97.6% stake in these blocks. However, most of the consideration of US\$7.2bn BP will pay is likely to be for KG D6, in which RIL has 90% stake. On that basis implied value works out to US\$21.8-27.2bn. We are valuing these assets at US\$25.7bn (total E&P value US\$32.9bn).

Share pricing in much lower value; deal to help re-rating

Problems with KG D6 ramp up and KG D9 dry wells meant RIL's E&P valuation was de-rated. RIL therefore did not participate in the refining and petrochemical rally in the last 6 months. RIL's share price (Rs956) is closer to our bear case fair value of Rs923 (lower E&P) rather than base case (Rs1,193). We believe this deal will bring in lot of benefits and also help re-rate RIL's E&P valuation.

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	152,960	158,976	200,457	251,202	317,945
EPS	46.56	48.39	61.02	76.46	96.78
EPS Change (YoY)	-11.7%	3.9%	26.1%	25.3%	26.6%
Dividend / Share	6.50	7.00	7.50	8.00	8.00
Free Cash Flow / Share	62.01	31.83	46.99	47.01	80.17
GDR EPS (US\$)	2.02	2.04	2.70	3.38	4.28
GDR Dividend / Share (US\$)	0.282	0.295	0.332	0.354	0.354

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	20.54x	19.76x	15.67x	12.51x	9.88x
Dividend Yield	0.680%	0.732%	0.784%	0.837%	0.837%
EV / EBITDA*	15.32x	11.80x	10.02x	8.88x	7.24x
Free Cash Flow Yield*	6.48%	3.33%	4.91%	4.92%	8.38%

* For full definitions of *iQmethod*SM measures, see page 11.

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Stock Data

Price (Common / GDR)	Rs956.35 / US\$44.40
Price Objective	Rs1,193 / US\$50.41
Date Established	6-Jan-2011 / 6-Jan-2011
Investment Opinion	B-1-7 / B-1-7
Volatility Risk	MEDIUM / MEDIUM
52-Week Range	Rs840.55-Rs1,187
Market Value (mn)	US\$69,501
Shares Outstanding (mn)	3,285.2 / 1,642.6
Average Daily Volume	6,320,774
BofAML Ticker / Exchange	XRELF / BSE
BofAML Ticker / Exchange	RLNIY / LIN
Bloomberg / Reuters	RIL IN / RELI.BO
ROE (2011E)	14.3%
Net Dbt to Eqty (Mar-2010A)	32.0%
Est. 5-Yr EPS / DPS Growth	20.0% / 10.0%
Free Float	45.0%

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Refer to important disclosures on page 12 to 15. Analyst Certification on Page 9. Price Objective Basis/Risk on page 9. Link to Definitions on page 9.11022765

iQprofileSM Reliance Industries Ltd.

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	1,512,240	2,037,397	2,261,439	2,530,917	2,528,887
Gross Profit	610,639	491,370	510,002	596,628	711,329
Sell General & Admin Expense	(372,719)	(182,431)	(146,313)	(186,015)	(207,593)
Operating Profit	181,410	199,481	241,627	298,826	365,253
Net Interest & Other Income	980	1,262	8,367	11,924	30,366
Associates	NA	NA	NA	NA	NA
Pretax Income	182,390	200,743	249,993	310,749	395,619
Tax (expense) / Benefit	(29,610)	(42,563)	(49,537)	(59,548)	(77,674)
Net Income (Adjusted)	152,960	158,976	200,457	251,202	317,945
Average Fully Diluted Shares Outstanding	3,285	3,285	3,285	3,285	3,285

Key Cash Flow Statement Data

Net Income	152,960	158,976	200,457	251,202	317,945
Depreciation & Amortization	56,510	109,458	122,062	111,787	138,484
Change in Working Capital	227,316	(159,422)	(13,371)	(20,210)	(3,857)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	14,070	96,523	9,907	11,910	15,535
Cash Flow from Operations	450,856	205,534	319,055	354,689	468,107
Capital Expenditure	(247,130)	(100,967)	(164,669)	(200,251)	(204,734)
(Acquisition) / Disposal of Investments	49,264	(66,767)	44,276	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(197,866)	(167,734)	(120,393)	(200,251)	(204,734)
Shares Issue / (Repurchase)	240,429	15,638	0	0	0
Cost of Dividends Paid	(19,350)	(19,860)	(24,309)	(28,096)	(29,969)
Cash Flow from Financing	476,685	(120,733)	(31,309)	(33,095)	(179,968)
Free Cash Flow	203,726	104,568	154,386	154,438	263,373
Net Debt	516,754	422,871	292,794	166,452	(66,952)
Change in Net Debt	(474,070)	(33,578)	(174,353)	(126,342)	(233,404)

Key Balance Sheet Data

Property, Plant & Equipment	1,686,604	1,678,113	1,720,719	1,809,183	1,875,432
Other Non-Current Assets	45,964	46,847	46,847	46,847	46,847
Trade Receivables	48,450	100,829	111,917	125,253	125,153
Cash & Equivalents	245,812	223,184	346,261	467,604	551,010
Other Current Assets	311,590	451,319	508,824	563,705	537,631
Total Assets	2,338,420	2,500,292	2,734,568	3,012,592	3,136,072
Long-Term Debt	678,170	625,753	620,753	615,754	465,755
Other Non-Current Liabilities	95,513	106,776	116,683	128,593	144,127
Short-Term Debt	84,396	20,302	18,302	18,302	18,302
Other Current Liabilities	388,720	425,856	484,864	534,744	504,712
Total Liabilities	1,246,799	1,178,687	1,240,602	1,297,393	1,132,897
Total Equity	1,091,621	1,321,605	1,493,966	1,715,199	2,003,175
Total Equity & Liabilities	2,338,420	2,500,292	2,734,568	3,012,592	3,136,072

iQmethodSM - Bus Performance*

Return On Capital Employed	9.6%	8.5%	10.0%	11.3%	12.9%
Return On Equity	15.8%	13.2%	14.3%	15.7%	17.2%
Operating Margin	12.0%	9.8%	10.7%	11.8%	14.4%
EBITDA Margin	15.7%	15.2%	16.1%	16.2%	19.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.9x	1.3x	1.6x	1.4x	1.5x
Asset Replacement Ratio	4.4x	0.9x	1.3x	1.8x	1.5x
Tax Rate (Reported)	16.2%	21.2%	19.8%	19.2%	19.6%
Net Debt-to-Equity Ratio	47.3%	32.0%	19.6%	9.7%	-3.3%
Interest Cover	10.0x	9.7x	10.1x	11.4x	16.5x

Key Metrics

* For full definitions of iQmethodSM measures, see page 11.

Company Description

India's largest petrochemical and refining company, Reliance, owns two refineries with 1.25mbpd capacity. It has over 2m tpa ethylene cracker and is the world's largest polyester producer. It also has large polypropylene and fibre intermediate capacity. Refining was 30%, petrochemical 43% and E&P 27% of FY10 EBIT. Its 2P reserves and resources in India are 4.7bn boe and 0.88bn boe in US shale gas.

Investment Thesis

We expect strong earnings growth for RIL in FY11-FY12E, driven by refining margin recovery and a surge in oil & gas volumes. RIL has 4.7bn boe 2P reserves from the exploration of 5% of its Indian acreage. It has large unexplored prospective acreage and, thus, large reserve-accretion potential. RIL also has a lot of cash and treasury shares, and should generate strong free cash flow. This may be used to make value-accretive acquisitions.

Stock Data

Shares / GDR	2.00
Price to Book Value	2.1x

BP to take 30% stake in 23 blocks BP to pay US\$7.2bn for 30% stake in 23 blocks May pay another US\$1.8bn in case of exploration success

RIL and BP on February 21 announced a transformational partnership in India. Relationship framework and transactional agreements were signed. As per press release issued by RIL and BP

- BP will take 30% interest in 23 oil & gas blocks in India including the producing KG D6 block
- BP will pay RIL US\$7.2bn as consideration for 30% stake in these 23 blocks
- BP could pay another US\$1.8bn as future performance payments based on exploration success that results in development of commercial discoveries
- RIL and BP will also form a 50:50 joint venture (JV) for sourcing and marketing of gas in India.

RIL to take stake in 23 blocks including producing KG D6

BP will acquire 30% stake in 23 oil & gas blocks including KG D6

Table 1: RIL's 23 oil & gas blocks in which BP plans to acquire 30% stake

Exploration blocks	Sedimentary basin	Operator	RIL's interest	RIL's partner/s	NELP
Deepwater blocks					
KG-DWN-98/1	Krishna-Godavari	RIL	100.0%		NELP 1
KG-DWN-98/3 (KG D6)	Krishna-Godavari	RIL	90.0%	Niko Resources	NELP 1
MN-DWN-98/2	Mahanadi-NEC	RIL	100.0%		NELP 1
CY-DWN-2001/2	Cauvery	RIL	100.0%		NELP 3
CY-PR-DWN-2001/3	Cauvery-palar	RIL	100.0%		NELP 3
CY-PR-DWN-2001/4	Cauvery-palar	RIL	100.0%		NELP 3
PR-DWN-2001/1	Palar	RIL	100.0%		NELP 3
KG-DWN-2001/1 (KG D9)	Krishna-Godavari	RIL	90.0%	Hardy Oil	NELP 3
NEC-DWN-2002/1	Mahanadi-NEC	RIL	100.0%		NELP 4
KK-DWN-2001/1	Kerala-Konkan	RIL	100.0%		NELP 3
KK-DWN-2001/2	Kerala-Konkan	RIL	100.0%		NELP 3
KG-DWN-2003/1 (KG D3)	Krishna-Godavari	RIL	90.0%	Hardy Oil	NELP 5
MN-DWN-2003/1 (Mahanadi D4)	Mahanadi-NEC	RIL	85.0%	Niko Resources	NELP 5
KG-DWN-2004/4	Krishna-Godavari	RIL	100.0%		NELP 6
KG-DWN-2004/7	Krishna-Godavari	RIL	100.0%		NELP 6
MN-DWN-2004/1	Mahanadi-NEC	RIL	100.0%		NELP 6
MN-DWN-2004/2	Mahanadi-NEC	RIL	100.0%		NELP 6
MN-DWN-2004/3	Mahanadi-NEC	RIL	100.0%		NELP 6
MN-DWN-2004/4	Mahanadi-NEC	RIL	100.0%		NELP 6
MN-DWN-2004/5	Mahanadi-NEC	RIL	100.0%		NELP 6
Shallow water blocks					
NEC-OSN-97/2 (NEC-25)	Mahanadi-NEC	RIL	90.0%	Niko Resources	NELP 1
Onland blocks					
AS-ONN-2000/1	Assam -Arakan	RIL	100.0%		NELP 2
CB-ONN-2003/1	Cambay	RIL	100.0%		NELP 5

Source: Company, BofA Merrill Lynch Global Research

BP will take stake in 19 blocks in eastern offshore region Also in 2 Kerala-Konkan deepwater and 2 onshore blocks

BP will take stake in 23 blocks of RIL including

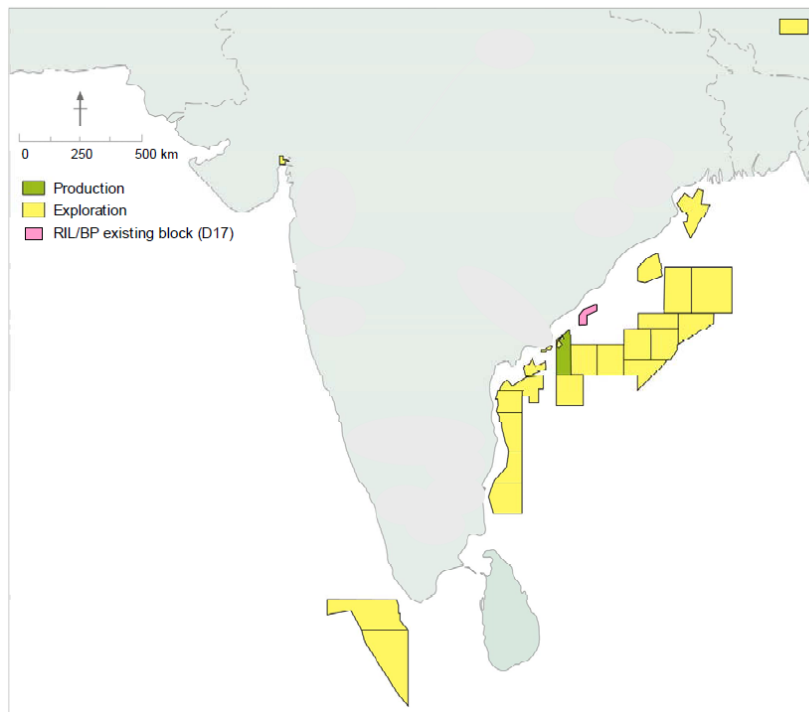
- 19 blocks (18 deepwater and 1 shallow water) in the eastern offshore. This includes the deepwater KG D6 and shallow water NEC-25 blocks, in which commercial discoveries have been made

- 2 deep-water Kerala-Konkan blocks
- 2 onland blocks including the Cambay block in which RIL has made several oil discoveries

BP already is RIL's partner with 50% interest in a KG deepwater block allotted to them in NELP VII.

Chart 1: Map of deal interests

Map of deal interests:



Source: RIL and BP press release

BP has not taken stake in PMT, CBM and US Shale gas

RIL also has 30% interest in the producing pre-NELP blocks Panna, Mukta and Tapti. It also has 5 CBM blocks in India including two, with gas resource of 3.5tcf. RIL has also recently formed three US Shale gas JVs. BP will not take interest in any of these E&P assets of RIL.

Implied value based on deal v/s our valuation Implied value US\$23.4-29.3bn

BP paying US\$7.2bn for 30%; RIL has 97.6% on average in these blocks
BP will pay RIL consideration of US\$7.2bn for 30% stake in its 23 oil & gas blocks. In case of further exploration success resulting in development of commercial discoveries BP could pay RIL another US\$1.8bn. Thus the US\$7.2-9.0bn BP may pay RIL implies value of US\$27-30bn for 100% stake in these blocks. RIL currently has 97.6% stake in these blocks. Implied value of RIL's 97.6% stake in these blocks is therefore US\$23.4-29.3bn.

Implied value US\$21.8-27.2bn if most value for KG D6

RIL's 90% in KG D6 assumed to be valued at US\$19bn

However, most of the consideration of US\$7.2bn, which BP will pay RIL is likely to be for the producing KG D6 block. RIL has 90% stake in KG D6 and 98% average stake in the other 22 blocks.

We are valuing RIL's 90% stake in KG D6 at US\$19bn including US\$16.9bn for discoveries already made and US\$2.2bn for exploration upside in the block. Assuming BP is valuing KG D6 on a similar basis, US\$6.35bn of its US\$7.2bn consideration may be for 30% in KG D6. It may thus be paying US\$850m for 30% interest in the other 22 blocks, in which RIL has 98% stake. Thus implied value of 100% stake in these blocks is US\$2.85bn and implied value of RIL's 98% stake is US\$2.8bn. Thus implied value of RIL's 90% in KG D6 (US\$19bn) and 98% in other 22 blocks (US\$2.8bn) works out to US\$21.8bn.

If the exploration upside option of US\$1.8bn, which BP may pay RIL is considered, implied value of RIL's stake in these blocks would rise to US\$27.2bn.

RIL assets BP is taking stake in valued by us at US\$26bn

Valuing PMT, CBM and US Shale gas at US\$7bn; total E&P value US\$33bn

We are valuing RIL's stake in E&P assets, in which BP is taking stake, at US\$25.7bn. We are also valuing PMT, CBM and US Shale gas at US\$7.2bn and RIL's total E&P assets at US\$32.9bn.

Table 2: Valuation of RIL's E&P assets

	mmboe	USD/boe	Risk	USDm	Rs/share
KG D6					
D6 2P reserves (D1 & D3)	2,106	5.1		10,696	165
MA oil (D-26) in D6	76	16.8		1,273	20
MA (D-26) gas in D6	139	6.9		959	15
D6 resources best case	1,166	3.7	90%	3,927	61
<i>Exploration upside from KG D6</i>	728	3.0		2,183	34
	4,214	4.5		19,038	294
KG D3					
KG D3 resources best case	78	3.0		234	4
<i>Prospective resources gas (KG D3)</i>	906	3.3	64%	1,887	29
	984	2.2		2,121	33
Mahanadi D4					
<i>Exploration upside in Mahanadi D4</i>	1,133	2.9		3,295	51
NEC-25 2P	447	2.7		1,229	19
Current value of RIL's E&P assets BP is acquiring	6,453	4.0		25,684	397
Other assets of RIL					
Proven oil reserves outside India	9	3.9		35	1
PMT proven reserves	141	9.0		1,270	20
CBM	594	3.6	90%	1,923	30
Recoverable gas in US Shale JV	883	2.1		1,874	29
Recoverable gas in US Shale JV	750	2.8		2,122	33
Other E&P assets of RIL	2,377	3.0		7,224	112
Total E&P valuation	8,830	3.7		32,908	508

Shares out (excluding treasury shares)

2,977

Source: Reliance, Niko, Hardy Oil, BofA Merrill Lynch Global Research

Implied value US\$22-29bn v/s our value of US\$26bn

Thus the implied value of RIL's E&P assets, in which BP is taking stake, is US\$22-29bn. We are valuing RIL's stake in these assets at US\$25.7bn. Thus our valuation is in the middle of the implied valuation range.

Share pricing in much lower value

Share price (RS956) closer to bear case fair value

However RIL's current share price factors a much lower valuation for RIL's E&P business in our view. RIL's share price (Rs956) is closer to our bear case fair value of Rs923 rather than base case fair value (Rs1,193). The main difference in our base and bear case fair value is bear case E&P value of Rs279/share vis-à-vis Rs508/share in the base case. In the bear case we have assumed

- No value for future discoveries vis-à-vis Rs114/share in base case
- KG D6 gas production remains at current levels (50-55mmscmd) and does not ramp up to guided peak of 80mmscmd. This would mean hit of Rs69/share
- No tax holiday for gas production. This matter is being litigated

Table 3: Valuation of RIL's E&P assets in bear case

	mmboe	USD/boe	Risk	USDm	Rs/share
D6 2P reserves (D1 & D3)	2,106	2.1		4,504	70
MA oil (D-26) in D6	76	16.8		1,273	20
MA (D-26) gas in D6	139	4.8		671	10
D6 resources best case	1,166	3.7	90%	3,927	61
	3,487	3.0		10,376	160
KG D3					
KG D3 resources best case	78	2.5		192	3
NEC-25 2P	447	1.6		708	11
Current value of RIL's E&P assets BP is acquiring	4,012	2.8		11,275	174
Other assets of RIL					
Proven oil reserves outside India	9	3.9		35	1
PMT proven reserves	141	9.0		1,270	20
CBM	594	2.8	90%	1,487	23
Gas resources in US Shale JV with Atlas	883	2.1		1,874	29
Resources in US Shale JV with Pioneer	750	2.8		2,122	33
Other E&P assets of RIL	2,377	2.9		6,788	105
Total E&P valuation	6,389	2.8		18,063	279

Shares out (excluding treasury shares)

2,977

Source: Reliance, Niko, Hardy Oil, BofA Merrill Lynch Global Research

E&P de-rated in the last few months

Hit by KG D6 ramp up delay and KG D9 dry wells

RIL's share price is closer to our bear case fair value rather than base case fair value due to de-rating of E&P in our view. E&P has got de-rated in the last few months (since July 2010) due to

- Problems with KG D6 oil & gas ramp up
- Both the exploration wells in KG D9 (touted to be highly prospective) being unsuccessful

- No significant discoveries in the last 2-3 years

De-rating of E&P valuation meant RIL did not participate in the refining and petrochemical rally in the last 6 months.

Deal to help re-rating of RIL's E&P **BP to bring deepwater exploration & development ability**

We believe this deal will bring in lot of benefits. BP will bring to the table world-class deepwater exploration and development capabilities.

Implied value on BP's consideration higher than bear case

Also as discussed the current share price appears to be factoring bear case E&P valuation. Implied value of RIL's E&P assets based on consideration BP is paying is closer to our base case E&P valuation rather than bear case. The deal will thus help re-rate RIL's E&P valuation

Deal to help reaffirm faith in RIL's E&P

Deal to re-rate Indian E&P

The BP-RIL deal should thus help reaffirm investors' faith in RIL's E&P business, which once was the jewel in its crown. The deal should thus help re-rate RIL's E&P. It is in fact good news for Indian E&P.

Base and bear case fair value

Base case fair value (PO)

Table 4: RIL's sum of parts valuation in base case

Rs/share	Valuation measure used	Valuation			
		USDbn	Rs-bn	Rs/share	Break-up
Business					
Petrochemicals	DCF	21.6	992	333	26%
Refining & Marketing	DCF	27.9	1,282	431	33%
Exploration & production	DCF	32.9	1,514	508	39%
Retail	DCF	1.2	55	19	1%
		83.6	3,843	1,291	100%
Less: net debt		6.4	293	98	
Sum of parts valuation		77.2	3,551	1,193	

No of shares (excluding treasury shares)

2,977

Source: BofA Merrill Lynch Global Research

Bear case fair value

Table 5: RIL's sum of parts valuation in bear case

Rs/share	Valuation measure used	Valuation			
		USDbn	Rs-bn	Rs/share	Break-up
Business					
Petrochemicals	DCF	21.4	982	330	32%
Refining & Marketing	DCF	27.7	1,274	428	41%
Exploration & production	DCF	18.1	831	279	27%
		67.1	3,088	1,037	100%
Less: net debt		7.4	341	115	
Sum of parts valuation		59.7	2,747	923	

No of shares (excluding treasury shares)

2,977

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

Reliance Inds (XRELF / RLNIY)

Our PO of Rs1,193 (GDR US\$50.41) is based on a sum-of-the-parts valuation. The value of the refining and petrochemical business, oil and gas reserves and resources, as well as its retail business, is calculated on DCF basis, using a WACC of 11.8pct. Refining and marketing (Rs431) is 33pct of our PO, E&P valuation (Rs508) 39pct, petrochemicals (Rs333) 26pct and organized retail (Rs19) 1pct. Downside risks are (1) 7-year income tax holiday being disallowed on gas production, which would mean lower cash flow, profit and fair value, (2) Lower-than-expected oil price. (3) Huge disappointments on the E&P front, as we have valued exploration upside at Rs114/share, (4) Failure in the retail business and (5) Decline in refining and petrochemical margins being steeper than expected. Upside risks are (1) Refining and petrochemical margins being better than expected, (2) Higher-than-expected oil price, (3) Higher-than-expected reserve accretion in the next 12-24 months and (4) Large acquisitions that increase fair value significantly.

Link to Definitions

Basic Materials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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22 February 2011

APR - Energy Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Formosa Plastics	FSAPF	1301 TT	Kenneth Whee
	GS Holdings	GSHDF	078930 KS	Kenneth Whee
	Hindustan Petro.	XHTPF	HPCL IN	Vidyadhar Ginde
	IOC	IOCOF	IOCL IN	Vidyadhar Ginde
	Kolon Industries	XKLN	120110 KS	Joon-Ho Lee
	Kunlun Energy	CNPXF	135 HK	Vitus Leung
	LG Chem	LGCLF	051910 KS	Kenneth Whee
	Nan Ya Plastics	NNYPF	1303 TT	Joon-Ho Lee
	Oil India Ltd	XLCRF	OINL IN	Vidyadhar Ginde
	ONGC	ONGCF	ONGC IN	Vidyadhar Ginde
	Reliance Inds	XRELF	RIL IN	Vidyadhar Ginde
	Reliance Inds -G	RLNIY	RIGD LI	Vidyadhar Ginde
	Sinopec	SNPMF	386 HK	Thomas Wong
	Sinopec - A	SNP	SNP US	Thomas Wong
	SK Innovation	XVERF	096770 KS	Kenneth Whee
NEUTRAL				
	BPCL	XBPCF	BPCL IN	Vidyadhar Ginde
	Citic Resources	CTJHF	1205 HK	Vitus Leung
	CNOOC	CEOHF	883 HK	Thomas Wong
	CNOOC	CEO	CEO US	Thomas Wong
	Formosa Chemicals & Fibre	XFUMF	1326 TT	Kenneth Whee
	Formosa Petrochemical	FPTCF	6505 TT	Kenneth Whee
	PetroChina	PCCYF	857 HK	Thomas Wong
	PetroChina - A	PTR	PTR US	Thomas Wong
	S-Oil	SOOCF	010950 KS	Kenneth Whee
UNDERPERFORM				
	COSL	CHOLF	2883 HK	Vitus Leung
	Petronet LNG Ltd	POLNF	PLNG IN	Vidyadhar Ginde
	Sinopec Shanghai Petrochemical	SPTJF	338 HK	Joon-Ho Lee
	Sinopec Yizheng Chemical Fibre	YZCFF	1033 HK	Joon-Ho Lee
RSTR				
	Cairn India	XCANF	CAIR IN	Vidyadhar Ginde

22 February 2011

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

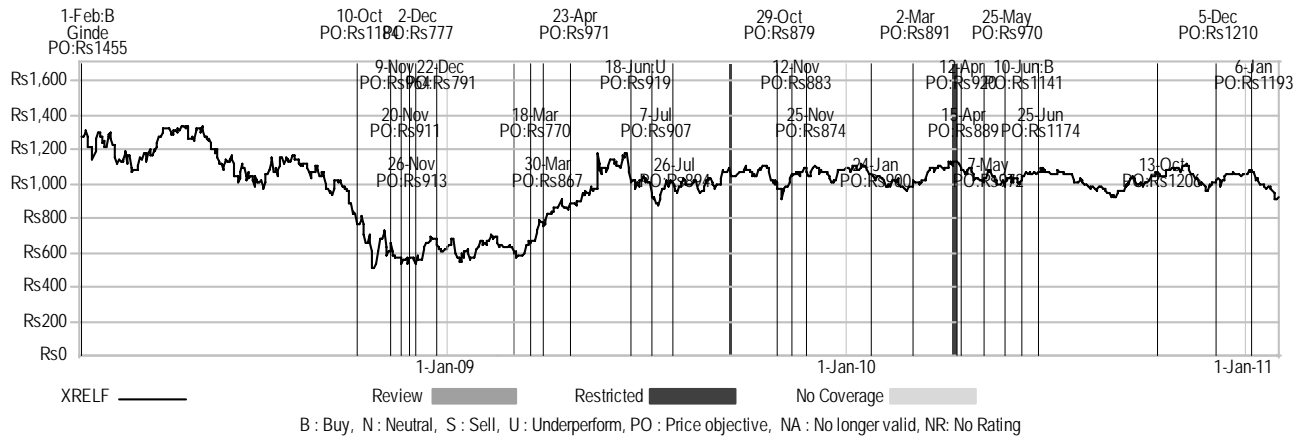
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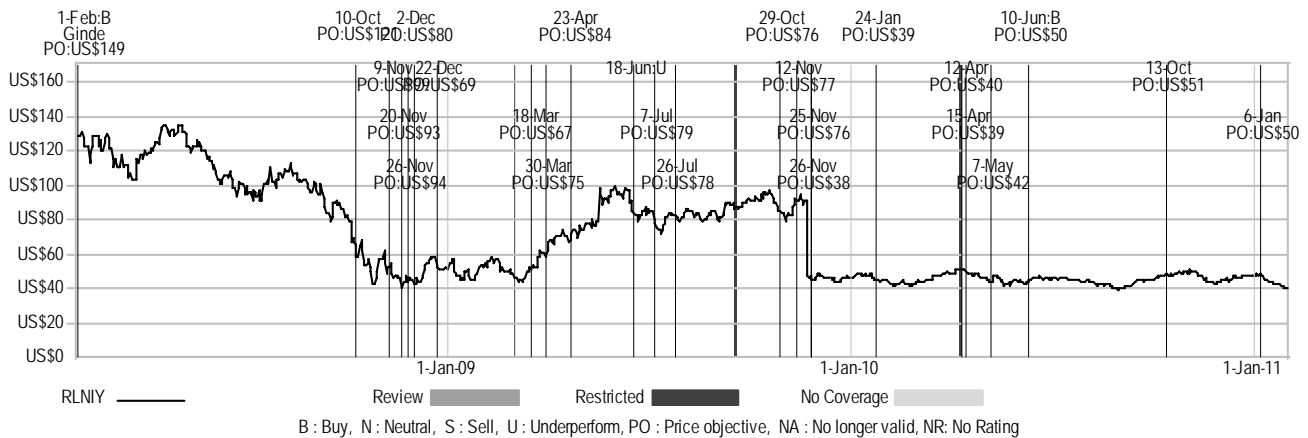
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XRELF Price Chart



Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of January 31, 2011 or such later date as indicated.

RLNIY Price Chart



Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of January 31, 2011 or such later date as indicated.

Investment Rating Distribution: Chemicals Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	61.90%	Buy	29	51.79%
Neutral	18	17.14%	Neutral	10	62.50%
Sell	22	20.95%	Sell	6	28.57%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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