Company Focus

15 December 2008 | 12 pages

Gammon India (GAMM.BO)

Business Weakness in a Tougher Environment, Downgrade to Sell

Change in opinion ☑
Rating change ☑
Target price change ☑
Estimate change ☑

- **We are downgrading Gammon to Sell/High Risk** — because of 1) business pressures – 12% of order book has been cancelled/suspended, 15% of remaining OB is to be executed on a "no-margin" basis for subsidiary GIPL – which will suppress margins; 2) lack of clarity on the operating/financial performance of the Italian acquisitions; 3) earnings cut by 23%-40% over FY09E-11E; 4) tougher overall operating environment for construction companies.

- **Cutting estimates by 23%-40% over FY09E-11E** — We have cut our earnings estimates for Gammon + ATSL by 23%-40% over FY09E-11E on the back of a 1) 45%-60% cut in Gammon India's FY09E-11E estimates, and 2) 15%/9% increase in FY09E/10E ATSL estimates respectively. Merger with ATSL boosts overall margins as ATSL margins are at 13% vs Gammon margins of 7%.

- **Cutting target price to Rs.68** — We value Gammon India + ATSL at 4x FY10E earnings, a discount to other construction stocks given lower earnings growth and returns profile. We reduce the interest outgo on acquisition debt for the Italian companies from FY10E PAT. We value the stakes in GIPL and Sadbhav Engg at current market capitalisation less 40% holding company discount. The stock is currently trading at ~5x FY10E and offers limited upside from current levels.

- **Upside risks** — These include 1) higher order inflows, 2) better than expected margins and 3) faster turnaround of Italian subsidiaries.

Sell/High Risk	**3H**
from Buy/Medium Risk	
Price (12 Dec 08)	Rs63.25
Target price	Rs68.00
from Rs291.00	
Expected share price return	7.5%
Expected dividend yield	0.6%
Expected total return	**8.1%**
Market Cap	Rs5,533M
	US$115M

Price Performance (RIC: GAMM.BO, BB: GMON IN)

Figure 1. Statistical Abstract

Year to 31-Mar	Net Profit (Rs mills)	EPS (Rs)	EPS Growth (%)	P/E (x)	ROE (%)	Div. Yield (%)
FY07	984	11.34		5.6	11.2%	0.8%
FY08	883	10.18	-10.2%	6.2	9.4%	0.8%
FY09E	1,261	11.12	9.2%	5.7	10.7%	0.6%
FY10E	1,342	11.83	6.4%	5.3	9.4%	0.6%
FY11E	1,428	12.59	6.4%	5.0	9.1%	0.6%

Source: Company reports, Citi Investment Research, Note – Shaded area denotes post ATSL merger financials

Deepal Delivala[1]
+91-22-6631-9857
deepal.delivala@citi.com

Venkatesh Balasubramaniam[1]
+91-22-6631-9864
venkatesh.balasubramaniam@citi.com

Atul Tiwari[1]
atul.tiwari@citi.com

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	5.6	6.2	5.7	5.3	5.0
EV/EBITDA adjusted (x)	3.7	3.9	3.4	3.8	3.8
P/BV (x)	0.6	0.6	0.5	0.5	0.4
Dividend yield (%)	0.8	0.8	0.6	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	11.34	10.18	11.12	11.83	12.59
EPS reported	5.13	9.93	14.90	11.83	12.59
BVPS	103.46	112.86	120.60	131.98	144.13
DPS	0.50	0.50	0.38	0.38	0.38
Profit & Loss (RsM)					
Net sales	18,517	23,449	36,313	41,011	44,809
Operating expenses	-17,147	-21,724	-33,573	-37,897	-41,467
EBIT	**1,370**	**1,725**	**2,740**	**3,114**	**3,342**
Net interest expense	-136	-264	-852	-1,104	-1,202
Non-operating/exceptionals	197	-68	21	22	23
Pre-tax profit	**1,431**	**1,393**	**1,910**	**2,033**	**2,163**
Tax	-447	-510	-649	-690	-734
Extraord./Min.Int./Pref.div.	-539	-22	430	0	0
Reported net income	**445**	**861**	**1,691**	**1,342**	**1,428**
Adjusted earnings	984	883	1,261	1,342	1,428
Adjusted EBITDA	1,722	2,187	3,323	3,794	4,119
Growth Rates (%)					
Sales	25.4	26.6	54.9	12.9	9.3
EBIT adjusted	-7.1	26.0	58.9	13.6	7.3
EBITDA adjusted	-6.7	27.0	52.0	14.2	8.6
EPS adjusted	-4.3	-10.2	9.2	6.4	6.4
Cash Flow (RsM)					
Operating cash flow	**-252**	**908**	**-3,426**	**-44**	**1,012**
Depreciation/amortization	352	462	583	680	777
Net working capital	-1,083	-408	-5,801	-2,066	-1,193
Investing cash flow	**-2,084**	**-1,497**	**-3,100**	**-1,501**	**-1,501**
Capital expenditure	-1,742	-1,393	-3,070	-1,501	-1,501
Acquisitions/disposals	-343	-103	-30	0	0
Financing cash flow	**1,954**	**10**	**6,603**	**2,449**	**949**
Borrowings	2,009	56	4,400	2,500	1,000
Dividends paid	-50	-51	-51	-51	-51
Change in cash	**-383**	**-579**	**77**	**905**	**461**
Balance Sheet (RsM)					
Total assets	**20,796**	**24,701**	**40,351**	**46,015**	**50,369**
Cash & cash equivalent	960	381	458	1,362	1,823
Accounts receivable	3,034	5,172	11,768	13,371	14,642
Net fixed assets	4,487	5,418	7,905	8,727	9,451
Total liabilities	**11,821**	**14,911**	**26,667**	**31,039**	**34,015**
Accounts payable	3,066	4,554	9,158	10,320	11,315
Total Debt	3,715	3,771	8,171	10,671	11,671
Shareholders' funds	**8,975**	**9,790**	**13,684**	**14,976**	**16,354**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.3	9.3	9.2	9.3	9.2
ROE adjusted	11.2	9.4	10.7	9.4	9.1
ROIC adjusted	9.2	9.6	11.6	10.2	9.9
Net debt to equity	30.7	34.6	56.4	62.2	60.2
Total debt to capital	29.3	27.8	37.4	41.6	41.6

For further data queries on Citi's full coverage universe please contact CIR Data Services Asia Pacific at CIRDataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Tougher Environment – Downgrade to Sell

We are downgrading Gammon India to Sell/High Risk from Buy/Medium Risk for the following reasons:

A) Cancellation of orders + weakness in order inflows

- **12% of current order book has been cancelled/suspended** – In our recent meeting with the management, they mentioned that out of the total order book of Rs93bn, ~Rs10bn of orders have been suspended. Projects have been cancelled/suspended due to floods in Bihar and security reasons in Assam.

- **15% of the remaining Rs83bn is to be executed on a "no-margin" basis for GIPL** – which means that Gammon India will book margins on only ~Rs71bn of orders. The Rs83bn of orders have an average execution period of 2.5 years. The company is currently the lowest bidder on Rs5bn of orders. It expects fresh order inflows of Rs8-10bn by March 2009. Most of the expected orders are from the hydroelectric sector.

- We expect order inflows to moderate in FY10E on the back of elections and a general slowdown in the economy.

B) Weak margin outlook

- **Margins outlook** – Gammon posted EBITDA margins of 7% in H109 on the back of orders suspended + execution of no-margin orders for GIPL. Going forward, the management said that the margins will definitely be more than 7% and they expect margins to improve to 9.5%-10% over the next 2.5 years. The benefit of softening commodity prices will come with a lag of roughly 6 months. But, they did concede that given a slowdown, smaller players are sacrificing margins for volume growth. Management guided for FY09E revenues between Rs27-28bn with EBITDA margins in the range of 7%-8%.

Given a slowdown, smaller players are sacrificing margins for volume growth. Our discussions with other industry players also suggest the same.

- **Our view** – Any margin benefit that the industry may be getting due to softer commodity prices will be negated to a large extent by more competitive bidding. Our discussions with other industry players also suggest the same. We therefore do not expect core Gammon India margins to improve beyond 8% in the near term.

C) Lack of clarity on Italian acquisitions

The Italian companies acquired are either loss making or have very low margins which will suppress overall financial performance. Gammon will fund the interest outgo on the acquisition debt and it will be structured as loans/advances to the acquiring subsidiary.

D) Associated Transrails – relatively better positioned

Current OB of the company is Rs22bn. ATSL posted H109 revenues of Rs4.4bn and EBITDA margins of 13%, ahead of expectations. The company guided for revenues of Rs10bn and margins of 13% in FY09E. The current debt of the company was Rs1.65bn. The company is undertaking capex of Rs1bn in FY09E. Debt cost was ~1% more than Gammon India's borrowing cost. Merger with ATSL boosts overall margins as ATSL margins are at 13% vs Gammon margins of 7%.

Gammon (standalone) PAT to grow at 3% CAGR over FY09E-11E

We are cutting our earnings estimates for Gammon India (excluding ATSL) by 45%-60% on the back of 1) lower revenues, 2) lower margins and 3) higher interest costs.

- Gammon India's revenues should grow at a sedate pace of ~11% over the next 3 years as ~12% of its current Rs93bn orderbook is suspended/cancelled. Moreover, we expect a decline in order inflows in FY10E – given a slowdown in the overall economy and elections which will push back investments.
- We expect margins to come down from 9.3% in FY08E to 7.7%-7.9% over FY09E-11E given that ~15% of its current orderbook will be executed on no margins for its subsidiary GIPL. Also, incremental orders from GIPL may also be executed on a zero margin basis – which may suppress overall margins.
- Any benefit from reduction in material costs would be offset by more competitive bidding in a tough environment.
- We are increasing our interest cost estimates for Gammon India on the back of higher than expected interest costs in the 1HY09.

Figure 2. Gammon India Standalone Estimates

Year End Mar31 (Rsmn)	FY09E	FY10E	FY11E
Net Sales			
Old	28,600	34,408	42,429
New	26,363	29,569	32,223
% Change	**-7.8%**	**-14.1%**	**-24.1%**
EBITDA			
Old	2,460	2959	3691
New	2,030	2,306	2,546
% Change	**-17.5%**	**-22.1%**	**-31.0%**
EBITDA Margins %			
Old	8.6%	8.6%	8.7%
New	7.7%	7.8%	7.9%
Change bps	**(90)**	**(80)**	**(80)**
Recurring PAT			
Old	1,045	1,213	1,521
New	570	593	605
% Change	**-45.4%**	**-51.1%**	**-60.2%**

Source: Citi Investment Research

Gammon + ATSL PAT to grow by 6% CAGR over FY09E-11E

We are cutting our estimates for Gammon + ATSL by 23%-40% over FY09E-11E on the back of

- A cut in Gammon standalone estimates by 45%-60%; and
- An increase in our ATSL estimates by 15%/9% for FY09E/10E given better than expected execution and margins.

Figure 3. Gammon + ATSL

Year End Mar31 (Rsmn)	FY09E	FY10E	FY10E
Net Sales			
Old	38,250	46,729	57,212
New	36,313	41,011	44,809
% Change	**-5.1%**	**-12.2%**	**-21.7%**
EBITDA			
Old	3,666	4438	5465
New	3,323	3,794	4,119
% Change	**-9.3%**	**-14.5%**	**-24.6%**
EBITDA Margins %			
Old	9.6%	9.5%	9.6%
New	9.2%	9.3%	9.2%
Change bps	**(43)**	**(25)**	**(36)**
Recurring PAT			
Old	1,646	1,901	2,371
New	1,261	1,342	1,428
% Change	**-23.3%**	**-29.4%**	**-39.8%**

Source: Citi Investment Research

Cutting target price to Rs68

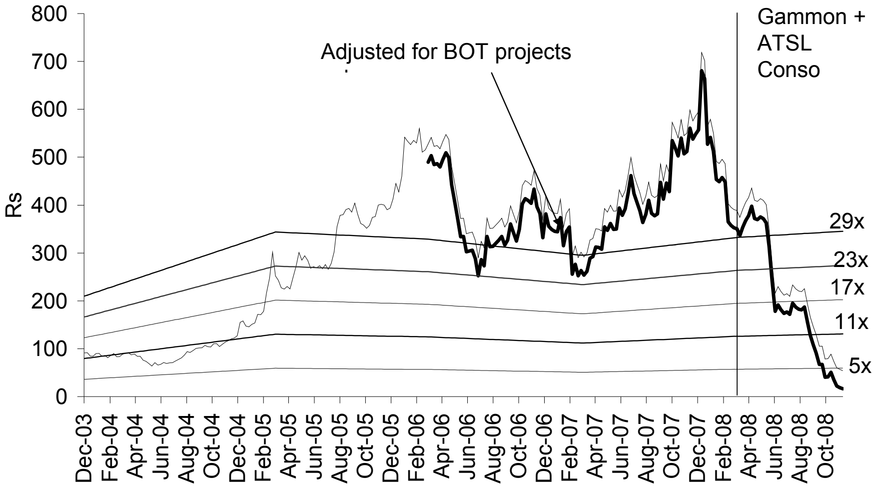
- We value Gammon India + ATSL at 4x FY10E EPS adjusted for interest on acquisitions, at a discount to other construction stocks like IVRCL given lower earnings growth and returns profile.
- We value the stakes in GIPL and Sadbhav Engineering at current market capitalisation less 40% holding company discount vis-a-vis 20% earlier, given that in the current market environment these listed entities could devalue faster than earlier expected.
- We do not value the treasury stock.

Figure 4. Gammon India Valuation Table (Rsmn except per share values)

	Methodology	
Gammon India +ATSL		
PAT	FY10E	1,342
Interest on acquisitions	FY10E	(485)
Net PAT		858
No of shares	Fully diluted post ATSL merger	113
EPS		7.56
PE		**4**
Value of Gammon share		**30**
Value of GIPL Stake	Current mkt cap less 40% hold co discount	37
Sadbhaav Engineering	Current mkt cap less 40% hold co discount	1
Total Value		**68**

Source: Citi Investment Research

Figure 5. Gammon PE chart



Source: Citi Investment Research

Increasing risk rating to High, downgrade to Sell

We are increasing the risk rating of Gammon India to High from Medium Risk given:

– The overall tougher operating environment for construction companies; and

– Lack of clarity on the operating /financial performance of the Italian acquisitions.

The stock is currently trading at ~5x FY10E EPS and offers limited upside from current levels. We downgrade the stock to a Sell.

Gammon India

Company description

Gammon is an 86-year-old construction company with cash contracting and build-operate-transfer (BOT) skill-sets in sectors as varied as bridges, flyovers, roads, energy (hydroelectric, nuclear and thermal), tunnels, ports, pipelines (oil, gas and water), water supply and sewage, utilities, ports, harbors, and other marine structures. A presence across sub-sectors provides Gammon with an advantage, as it is in a position to bid, win and implement a wide range of projects in this very active space.

Investment strategy

We rate Gammon shares as Sell/High Risk (3H), with a target price of Rs68.

- **12% of current order book has been cancelled/suspended** – Out of the total OB of Rs93bn, ~Rs10bn of orders have been suspended. Projects have been cancelled/ suspended due to floods in Bihar and security reasons in Assam.

- **15% of the remaining Rs83bn to be executed on a "no-margin" basis for GIPL** – which means that Gammon India will book margins only ~Rs71bn of orders. The Rs83bn of orders have an average execution period of 2.5 years. The company is currently the lowest bidder on Rs5bn of orders. It expects fresh order inflows of Rs8-10bn by March 2009. Most of the expected orders are from the hydroelectric sector.

We expect order inflows to moderate in FY10E on the back of elections and a general slowdown in the economy.

Valuation

We value Gammon's shares at a target price of Rs68 using a sum-of-the-parts (SOTP). We value the merged entity (Gammon India+ ATSL) at a PE of 4x March-10E. We deduct the interest cost of acquisition debt taken for acquiring Italian entities, from the profits of the merged entity. We thus arrive at a core business value of Rs30 per share. We value the GIPL stake at Rs37 per share based on current market value and ascribing a 40% holding company discount. We do not value the treasury stock of 5.7mn shares created from the merger of ATSL. We value the residual stake in Sadbhaav Engineering at current market value less 40% holding company discount – at Rs1 per share.

Risks

We rate Gammon shares High Risk given increased risks to the business including from slowing capex leading to a slowdown in order inflow and lack of clarity on operating and financial performance of Italian subsidiaries. Upside risks to our target price include 1) higher order inflows than we assume, 2) better than expected margins 3) faster turnaround of Italian subsidiaries.

IVRCL Infra & Projects (IVRC.BO; Rs152.80; 1H)

Valuation

We value IVRCL shares at Rs143 based on a sum-of-the-parts (SOTP) given its broad business profile. We value the core construction business at Rs127 based on 8x Dec-09E, a discount to large E&C companies and lower than its average trading band for the last 4 years. We value BOT projects at Rs7 based on P/BV multiple of 1.1x, and a 70% holding company discount. We value the HDO stake at Rs3 based on current market cap, and a 50% holding company discount. We value the IVR Prime Urban stake at Rs5 based on current market cap, and a 50% holding company discount.

Risks

We rate IVRCL shares as High Risk, which we believe is appropriate given increasing operating environment pressures for the sector in terms of tougher financing and a possibility of a push back in investments. Key risks which could prevent the shares from reaching our target price include: 1) Risk associated with BOT projects, 2) Increasing raw material prices, 3) Project execution risks, 4) Shortage of skilled manpower, 5) Higher interest rates, 6) Equity dilution, and 7) Low promoter holding.

Appendix A-1

Analyst Certification

Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

Gammon India (GAMM.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Deepal Delivala
Covered since August 13 2008

	Date	Rating	Target Price	Closing Price
1	9-Feb-06	*3L	*426.00	525.70
2	19-Jan-07	*1L	*461.00	382.20
3	5-Nov-07	1L	*642.00	557.60
4	11-Apr-08	1L	*477.00	391.45
5	12-Aug-08	*1M	*291.00	248.15

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

IVRCL Infra & Projects (IVRC.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Deepal Delivala
Covered since August 9 2007

	Date	Rating	Target Price	Closing Price
1	8-Aug-07	*1M	*499.00	381.25
2	1-Nov-07	1M	*602.00	485.15
3	11-Apr-08	1M	*477.00	377.40
4	12-Aug-08	1M	*401.00	339.95
5	2-Nov-08	*1H	*143.00	84.70

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Gammon India.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Gammon India, IVRCL Infra & Projects.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Gammon India, IVRCL Infra & Projects in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Gammon India, IVRCL Infra & Projects.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Gammon India.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Gammon India, IVRCL Infra & Projects.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research product ("the Product"), please contact Citi Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research Ratings Distribution

Data current as of 10 Nov 2008	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage	48%	36%	16%
% of companies in each rating category that are investment banking clients	48%	46%	37%

Guide to Fundamental Research Investment Ratings:
Citi Investment Research's stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).
Investment ratings are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.
Guide to Corporate Bond Research Credit Opinions and Investment Ratings: Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 12 December 2008 01:09 PM on the issuer's primary market.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details.

Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared by NCL and distributed by Nikko Cordial Securities Inc. or Citigroup Global Markets Inc. it is being so distributed under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in Taiwan through Citigroup Global Markets Taiwan Securities Company Ltd., which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. The Product is made available in U.A.E. by Citigroup Global Markets Limited, which is authorised and regulated by the Dubai Financial Services Authority. DIFC, Bldg 2, Level 7, PO Box 506560, Dubai, UAE. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST