

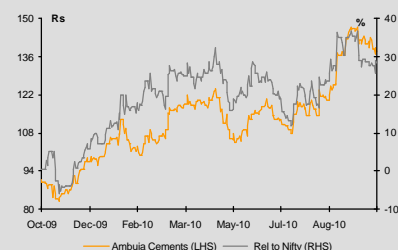
October 21, 2010

<b>Reco</b>	Previous Reco
Hold	Hold
<b>CMP</b>	Target Price
Rs142	Rs130
EPS change FY11E/12E (%)	2.5/2.9
Target Price change (%)	16
Nifty	6101
Sensex	20261

<b>Price Performance</b>				
(%)	1M	3M	6M	12M
Absolute	(3)	27	18	56
Rel. to Nifty	(4)	12	2	30

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Cement
Bloomberg	ACEM@IN
Equity Capital (Rs mn)	3053
Face Value(Rs)	2
No of shares o/s (mn)	1526
52 Week H/L	150/82
Market Cap (Rs bn/USD mn)	217/4,892
Daily Avg Volume (No of sh)	2438590
Daily Avg Turnover (US\$mn)	7.2

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	46.4	46.4	46.4
FII/NRI	29.4	27.6	27.3
Institutions	15.3	16.3	16.5
Private Corp	0.9	1.2	1.1
Public	7.9	8.6	8.7

Source: Capitaline

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- **Net profit at Rs1.52 bn (-44% yoy) below estimates (Rs2.07 bn), led by higher P&F costs & lower other income. Revenue down 2.9%yoy -Volumes +6.1% yoy, realizations - 8.5%yoy**
- **EBITDA at Rs 2.8bn (-34.2%yoy) (Estimate-Rs3.4 bn). Sharp jump in P&F costs (Rs1017/t up 29.7% yoy) negates benefits of zero clinker purchases. EBITDA/t at Rs651 (-38%yoy)**
- **Downgrade our earnings by 2.5% for CY10 and 2.9% for CY11. with recent hikes in cement prices and improving demand outlook, we expect the worst to be over for Ambuja**
- **Upgrade our price target to Rs130 (valued at EV/ton of USD140 for CY11). However Rich valuation at PER of 15.7 & EV/ton of USD151 leaves little upside. Maintain HOLD**

### Revenues decline by 2.9% yoy – Realizations at Rs3595 (- 8.5%yoy)

ACL's revenue at Rs15.6bn declined by 2.9%yoy as benefits of 6.1% yoy volume growth (to 4.35mnt) was negated by sharp fall of 8.5% yoy in realizations (Rs3595/t). However realisations were better than our estimates of Rs3563/t. Domestic sales volumes increased by 7.6%, to 4.3mnt whereas exports declined 32%yoy to 0.148 mnt.

### Sharp increase in P&F costs drag EBITDA down by 34.2%

EBITDA at Rs 2.8bn declined 34.2%yoy and 53%qoq due to lower realizations and higher costs. Power and fuel (P&F) costs at Rs1017/t increased by 29.7% yoy due to sharp increase in coal/pet coke prices and higher in house clinker production. Raw material costs declined by 55% to Rs276/t mainly due to absence of outside clinker purchase. Similarly other expenditure increased 16.7% yoy to Rs 3.36bn led by higher royalty and packaging costs. Total cost increased 2.2%yoy and 8.9% qoq to Rs 2945/t.

### EBITDA/t at Rs 651 down 38%yoy

With sharp fall in realizations and higher costs, ACL's EBITDA/t at Rs 651 declined by 38%yoy and 42.4%qoq with EBITDA margins contracting 859bps yoy to 18.1%. these levels of profitability were last seen in CY2006 with EBITDA/t of Rs600.

### Net profit at Rs1.52bn down 44.2%yoy

Other operating income included surplus power revenues worth Rs3.7mn, significantly lower than revenues of Rs150 mn in Q2CY10, leading to lower than expected other income. Decline was led by lower grid prices realized this quarter. Depreciation increased 41.5% yoy with commissioning of new capacities, whereas interest costs increased 71.6% yoy. Net profit at Rs1.52bn (our estimate Rs2.07 bn) declined 44.2%yoy and 61.1%qoq.

### Consolidated Financial Snapshot

Y/E Dec	Net sales (Rsm)	EBIDTA (Rsm)	PAT (%)	EPS (Rsm)	EPS growth (%)	ROE (%)	PE (x)	EV/EBIDTA	EV/ Tonne (USD)	
CY08	62,203	17424	28.0	10939	7.2	11.3	21	19.8	11.9	205.2
CY09	70,769	18669	26.4	12185	8.0	11.3	20	17.8	10.8	175.9
CY10E	73,395	19117	26.0	12703	8.3	4.3	18	17.1	10.3	170.8
CY11E	82,196	21156	25.7	13824	9.1	8.8	18	15.7	8.9	151.4

## Result Table

Rs mn	Q3CY09	Q4CY09	Q1CY10	Q2CY10	Q3CY10	YoY(%)	QoQ (%)	YTDCY10	YTDCY09	YoY(%)
<b>Revenue</b>	<b>16,110</b>	<b>17,729</b>	<b>19,902</b>	<b>20,476</b>	<b>15,640</b>	-2.9	-23.6	<b>56,017</b>	<b>53,040</b>	5.6
<b>Expenditure</b>	<b>11,809</b>	<b>13,385</b>	<b>13,675</b>	<b>14,444</b>	<b>12,809</b>	8.5	-11.3	<b>40,927</b>	<b>38,715</b>	5.7
<i>as % of sales</i>	73.3	75.5	68.7	70.5	81.9					
Consumption of RM	2,520	2,243	1,833	1,452	1,201	-52.3	-17.3	4,487	7,401	-39.4
<i>as % of sales</i>	15.6	12.7	9.2	7.1	7.7					
Stock adjustments	-463.8	56.1	495.4	-623.1	-592.0	27.6	-5.0	-719.7	438.3	-264.2
<i>as % of sales</i>	-2.9	0.3	2.5	-3.0	-3.8					
Employee Cost	679	784	772	901	989	45.6	9.8	2,662	1,945	36.9
<i>as % of sales</i>	4.2	4.4	3.9	4.4	6.3					
Power & fuel for generation	3216.5	3272.3	3552.2	4534.4	4425.8	37.6	-2.4	12512.4	10955.2	14.2
<i>as % of sales</i>	20.0	18.5	17.8	22.1	28.3					
Freight & Forwarding	2978.3	3671.6	4122.4	4473.8	3425.4	15.0	-23.4	12021.6	9802.8	22.6
<i>as % of sales</i>	18.5	20.7	20.7	21.8	21.9					
Other expenditure	2,879	3,358	2,900	3,706	3,359	16.7	-9.4	9,965	8,173	21.9
<i>as % of sales</i>	17.9	18.9	14.6	18.1	21.5					
<b>EBITDA</b>	<b>4,300</b>	<b>4,344</b>	<b>6,227</b>	<b>6,032</b>	<b>2,832</b>	-34.2	-53.1	<b>15,090</b>	<b>14,325</b>	5.3
Depreciation	719	860	767	1,001	1,018	41.5	1.7	2,786	2,110	32.0
<b>EBIT</b>	<b>3,581</b>	<b>3,484</b>	<b>5,459</b>	<b>5,031</b>	<b>1,814</b>	-49.4	-64.0	<b>12,304</b>	<b>12,215</b>	0.7
Other Income	432.8	556.3	545.9	667.4	495.4	14.5	-25.8	1708.7	1540.5	10.9
Interest	52	68	108	81	89	71.6	10.4	278	157	77.8
<b>PBT</b>	<b>3,962</b>	<b>3,972</b>	<b>5,898</b>	<b>5,618</b>	<b>2,220</b>	-44.0	-60.5	<b>13,735</b>	<b>13,599</b>	1.0
Total Tax	1,238	1,560	1,378	1,705	699	-43.6	-59.0	3,782	4,289	-11.8
<b>Adjusted PAT</b>	<b>2,723</b>	<b>2,412</b>	<b>4,520</b>	<b>3,912</b>	<b>1,521</b>	-44.2	-61.1	<b>9,953</b>	<b>9,310</b>	6.9
(Profit)/loss from JV's/Ass/MI								0	0	
<b>APAT after MI</b>	<b>2,723</b>	<b>2,412</b>	<b>4,520</b>	<b>3,912</b>	<b>1,521</b>	-44.2	-61.1	<b>9,953</b>	<b>9,310</b>	6.9
<b>Extra ordinary items</b>	<b>462</b>	<b>0</b>	<b>103</b>	<b>0</b>	<b>0</b>		#DIV/0!	<b>103</b>	<b>462</b>	-77.8
<b>Reported PAT</b>	<b>3,185</b>	<b>2,412</b>	<b>4,622</b>	<b>3,912</b>	<b>1,521</b>	-52.2	-61.1	<b>10,055</b>	<b>9,772</b>	2.9
<b>Reported EPS</b>	<b>1.8</b>	<b>1.6</b>	<b>3.0</b>	<b>2.6</b>	<b>1.0</b>	-44.2	-61.1	<b>6.5</b>	<b>6.1</b>	6.9

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	26.7	24.5	31.3	29.5	18.1	-859	-1135	26.9	27.0	-7	
EBIT	22.2	19.6	27.4	24.6	11.6	-1063	-1298	22.0	23.0	-107	
EBT	24.6	22.4	29.6	27.4	14.2	-1040	-1324	24.5	25.6	-112	
PAT	16.9	13.6	22.7	19.1	9.7	-718	-938	17.8	17.6	21	
Effective Tax rate	31.3	39.3	23.4	30.4	31.5	22	112	27.5	31.5	-400	

## Per tonne analysis

Rs/t	Q3CY09	Q4CY09	Q1CY10	Q2CY10	Q3CY11	YoY(%)	QoQ (%)	YTDCY10	YTDCY09	YoY(%)
<b>Cement Volumes (mn t)</b>	<b>4.10</b>	<b>4.83</b>	<b>5.27</b>	<b>5.34</b>	<b>4.35</b>	<b>6.10</b>	<b>-18.54</b>	<b>14.96</b>	<b>13.97</b>	<b>7.09</b>
Raw Material Consumed	614.5	464.4	347.8	271.9	276.1	-55.1	1.5	299.9	529.8	-43.4
Clinker Purchased	383.6	267.3	144.0	43.1	0.5	-99.9	-98.9	66.3	316.1	-79.0
Other	230.9	197.1	203.8	228.8	275.7	19.4	20.5	233.6	213.7	9.4
Stock adjustments	-113.1	11.6	94.0	-116.7	-136.1	20.3	16.6	-48.1	31.4	-253.3
Staff Cost	165.7	162.3	146.5	168.7	227.4	37.2	34.8	177.9	139.2	27.8
Power & fuel for generation	784.5	677.5	674.0	849.1	1017.4	29.7	19.8	836.4	784.2	6.7
Freight & Forwarding										
on sales	628.3	608.9	636.8	637.1	613.9	-2.3	-3.6	630.2	592.4	6.4
on inter unit clinker transfer			98.1	151.2	145.5	200.7	173.6	77.0	-13.5	173.4
Other Expenditure	702.3	695.3	550.3	693.9	772.2	10.0	11.3	666.1	585.0	13.9
<b>Total Cost per tonne</b>	<b>2880.3</b>	<b>2771.3</b>	<b>2594.9</b>	<b>2704.8</b>	<b>2944.5</b>	<b>2.2</b>	<b>8.9</b>	<b>2735.8</b>	<b>2771.3</b>	<b>-1.3</b>
<b>Realisation per tonne</b>	<b>3929.1</b>	<b>3670.6</b>	<b>3776.4</b>	<b>3834.4</b>	<b>3595.4</b>	<b>-8.5</b>	<b>-6.2</b>	<b>3744.5</b>	<b>3796.7</b>	<b>-1.4</b>
<b>EBIDTA per tonne</b>	<b>1048.8</b>	<b>899.3</b>	<b>1181.5</b>	<b>1129.6</b>	<b>650.9</b>	<b>-37.9</b>	<b>-42.4</b>	<b>1008.7</b>	<b>1025.4</b>	<b>-1.6</b>

## Downgrade Earnings

On account of lower than expected quarterly numbers we are downgrading our earnings estimates for ACL by 2.5% for CY10 (EPS of Rs 8.3) and 2.9% for CY11 (EPS of Rs 9.1)

	CY10			CY11		
	Earlier	Revised	change	Earlier	Revised	change
<b>Sales</b>	74331	73395	-1.3%	82929	82196	-0.9%
<b>EBIDTA</b>	19579	19117	-2.4%	21673	21156	-2.4%
<b>EBIDTA (%)</b>	26.3	26.0		27.1	25.7	
<b>Net Profit</b>	13138	12805	-2.5%	14238	13824	-2.9%
<b>EPS</b>	8.5	8.3	-2.5%	9.3	9.1	-2.9%

## Expect worst to be over for Ambuja...

As mentioned earlier ACL's Q3CY10 EBIDTA/t of Rs651 is lowest levels of profitability since CY2006. However we believe that the worst is over as far as profitability is concerned. Our view is based on following factors

### 1. Pace of capacity addition to recede– average quarterly additions to drop 50% over next 6 quarter

Close to 65 mt of new capacity has been added over last 6 quarter (Q1FY10-Q2FY11), i.e. an average addition of close to 11 mt every quarter. We estimate close to 33 mt of new capacity additions over next 6 quarter, resulting in an average addition of 5.5 mt. These average additions over next 6 quarters are 50% lower additions done in past 6 quarter.

### 2. Increasing pricing discipline - Recent cement price hike to restrict downgrade

With the sector profitability reaching levels of CY05 we have seen emergence of producers understanding and pricing discipline. This has led to cement prices being hiked by Rs15-35/bag across various regions. With recent price taken by cement producer across the country, we estimate average cement prices have reached ~Rs235-237/bag. Our CY11E numbers for ACL (EPS of Rs9.1) are modelled at Rs244/bag. Hence with further price hike of Rs8-9/bag, led by pick up in demand and receding capacity additions, the cement prices can touch our estimates, thereby restricting further earnings downgrade.

## ...upgrade TP to Rs130 - However rich valuations leave little upside- Maintain HOLD

Driven by above mentioned factors we are upgrading target price to Rs130 as compared to Rs112. We have valued Ambuja at an EV/ton of USD 140 (USD 130 earlier) and PER of 14X (as compared to 13X earlier). The increase in our TP on Ambuja is driven by rollover of valuation to CY11 numbers and moderate increase in valuation multiples as mentioned earlier. However ACL's rich valuations at PER of 15.7X and EV/ton basis of USD 151 for its CY11 capacity leave little upside from current levels. Maintain HOLD.

## Financials

## Income Statement

Y/E, Dec (Rs. mn)	CY08	CY09	CY10	CY11E
<b>Net Sales</b>	<b>62,203</b>	<b>70,769</b>	<b>73,395</b>	<b>82,196</b>
Growth (%)	10.5	13.8	3.7	12.0
<b>Total Expenditure</b>	<b>44,991</b>	<b>52,293</b>	<b>54,278</b>	<b>61,040</b>
Raw Materials Cost	5,819	9,644	5,860	6,492
Employee Expenses	2,661	2,728	3,274	3,667
Power & Fuel cost	13,257	14,228	16,740	19,163
Freight & Handling	12,499	13,474	15,950	18,370
Others	10,755	12,219	12,453	13,349
<b>EBITDA</b>	<b>17,424</b>	<b>18,669</b>	<b>19,117</b>	<b>21,156</b>
Growth (%)	-14.8	7.1	2.4	10.7
<b>EBITDA margin (%)</b>	<b>28.0</b>	<b>26.4</b>	<b>26.0</b>	<b>25.7</b>
Depreciation	2,598	2,970	3,487	4,319
<b>EBIT</b>	<b>16,936</b>	<b>18,257</b>	<b>17,959</b>	<b>19,516</b>
<b>EBIT margin (%)</b>	<b>27.2</b>	<b>25.8</b>	<b>24.5</b>	<b>23.7</b>
Other Income	2109	2558	2329	2679
Interest expenses	321	224	316	316
<b>PBT</b>	<b>16,615</b>	<b>18,033</b>	<b>17,643</b>	<b>19,200</b>
<b>Tax</b>	<b>5,676</b>	<b>5,848</b>	<b>4,940</b>	<b>5,376</b>
Effective tax rate (%)	34.2	32.4	28.0	28.0
<b>Adjusted PAT</b>	<b>10,939</b>	<b>12,185</b>	<b>12,703</b>	<b>13,824</b>
Growth (%)	11.3	11.4	4.3	8.8
<b>Net Margin (%)</b>	<b>17.6</b>	<b>17.2</b>	<b>17.3</b>	<b>16.8</b>
(Profit)/loss from JVs/Ass/MI				
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>10,939</b>	<b>12,185</b>	<b>12,703</b>	<b>13,824</b>
E/O items	3083.3	0	102.5	0
<b>Reported PAT</b>	<b>14,023</b>	<b>12,185</b>	<b>12,805</b>	<b>13,824</b>
Growth (%)	-20.7	-13.1	5.1	8.0

## Balance Sheet

Y/E, Dec (Rs. mn)	CY08	CY09	CY10	CY11E
Equity share capital	3049	3050	3050	3050
Reserves & surplus	53680	61660	69971	78943
<b>Net worth</b>	<b>56,729</b>	<b>64,710</b>	<b>73,018</b>	<b>81,990</b>
<b>Minority Interest</b>				
Secured Loans	1000	1000	2500	2500
Unsecured Loans	1887	657	657	657
<b>Loan Funds</b>	<b>2,887</b>	<b>1,657</b>	<b>3,157</b>	<b>3,157</b>
Net deferred tax liability	3808	4858	4858	4858
<b>Total Liabilities</b>	<b>63,423</b>	<b>71,225</b>	<b>81,034</b>	<b>90,006</b>
Gross Block	57069	62241	89386	94386
Less: Depreciation	25142	27841	31328	35647
<b>Net block</b>	<b>31,928</b>	<b>34,400</b>	<b>58,057</b>	<b>58,739</b>
Capital work in progress	19472	27144	5000	5000
<b>Investment</b>	<b>3,324</b>	<b>7,270</b>	<b>7,270</b>	<b>7,270</b>
<b>Current Assets</b>	<b>23,395</b>	<b>19,793</b>	<b>28,488</b>	<b>38,097</b>
Inventories	9387	6832	8043	9008
Sundry debtors	2246	1522	1810	2027
Cash & bank balance	8518	8807	16104	24532
Loans & advances	2999	2531	2531	2531
Other current assets	244	102	0	0
<b>Current lia &amp; Prov</b>	<b>14,738</b>	<b>17,411</b>	<b>17,807</b>	<b>19,126</b>
Current liabilities	10032	10671	11067	12386
Provisions	4706	6740	6740	6740
<b>Net current assets</b>	<b>8,657</b>	<b>2,383</b>	<b>10,681</b>	<b>18,971</b>
Misc. exp	43	27	27	27
<b>Total Assets</b>	<b>63,423</b>	<b>71,224</b>	<b>81,035</b>	<b>90,007</b>

## Cash Flow

Y/E, Dec (Rs. mn)	CY08	CY09	CY10	CY11E
<b>PBT (Ex-Other income)</b>	<b>14,506</b>	<b>15,475</b>	<b>15,314</b>	<b>16,521</b>
Depreciation	2598	2970	3487	4319
Interest Provided	321	224	316	316
Other Non-Cash items				
Chg in working cap	-2152	4528	-1001	138
Tax paid	5676	5848	4940	5376
<b>Operating Cashflow</b>	<b>11,385</b>	<b>19,682</b>	<b>15,292</b>	<b>18,280</b>
Capital expenditure	-17,263	-12,844	-5,000	-5,000
<b>Free Cash Flow</b>	<b>3,688</b>	<b>2,892</b>	<b>10,292</b>	<b>13,280</b>
Other income	2109	2558	2329	2679
Investments	9566	-3946	0	0
<b>Investing Cashflow</b>	<b>-7,698</b>	<b>-16,790</b>	<b>-5,000</b>	<b>-5,000</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-418	-1,230	1,500	0
Interest Paid	321	224	316	316
Dividend paid (incl tax)	-3,919	-4,277	-4,494	-4,852
Income from investments				
Others				
<b>Financing Cashflow</b>	<b>-4,336</b>	<b>-5,507</b>	<b>-2,994</b>	<b>-4,852</b>
<b>Net chg in cash</b>	<b>-649</b>	<b>-2,615</b>	<b>7,297</b>	<b>8,428</b>
Opening cash position	3,781	6,426	8,807	16,104
<b>Closing cash position</b>	<b>8,518</b>	<b>8,807</b>	<b>16,104</b>	<b>24,532</b>

## Key ratios

Y/E, Dec	CY08	CY09	CY10	CY11E
<b>Profitability (%)</b>				
EBITDA Margin	28.0	26.4	26.0	25.7
Net Margin	17.6	17.2	17.3	16.8
ROCE	33.3	31.1	27.1	25.8
ROE	21.2	20.1	18.4	17.8
RoIC	67.0	73.5	51.1	39.0
<b>Per Share Data (Rs)</b>				
EPS	7.2	8.0	8.3	9.1
CEPS	8.9	9.9	10.6	11.9
BVPS	37.2	42.4	47.9	53.8
DPS	2.2	2.4	2.5	2.7
<b>Valuations (x)</b>				
PER	19.8	17.8	17.1	15.7
P/CEPS	16.0	14.3	13.4	11.9
P/BV	3.8	3.3	3.0	2.6
EV / Sales	3.3	2.9	2.7	2.3
EV / EBITDA	11.9	10.8	10.3	8.9
Dividend Yield (%)	1.5	1.7	1.8	1.9
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.2	-0.2	-0.3	-0.3
Net Debt/EBITDA	-0.3	-0.4	-0.7	-1.0
Working Cap Cycle (days)	9.4	-11.9	-6.0	-6.0

**Recommendation History: Ambuja Cement – ACEM IN**

Date	Reports	Reco	CMP	Target
23/07/2010	<a href="#">Ambuja Cements Q2CY2010 Result Update</a>	Hold	112	112
23/04/2010	<a href="#">Ambuja Cements Q1CY2010 Result Update</a>	Hold	120	108
05/02/2010	<a href="#">Ambuja Cements Q4CY2009 Result Update</a>	Hold	103	102
29/10/2009	<a href="#">Ambuja Cements Q3CY2009 Result Update</a>	Accumulate	89	105

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
08/09/2010	<a href="#">Cement Sector Update</a>			
17/08/2010	<a href="#">Shree Cement Q1FY11 Result Update</a>	Accumulate	1,805	2,200
03/08/2010	<a href="#">Madras Cement Q1FY11 Result Update</a>	Reduce	100	101
02/08/2010	<a href="#">India cements Q1FY11 Result Update</a>	Sell	105	98

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