



Reliance Power RPWR IN

INDIA / INDEPENDENT POWER PRODUCERS

TARGET INR140.0
PRIOR TP INR140.0
CLOSE INR140.2
UP/DOWNSIDE -0.1%

HOLD

FROM REDUCE

HOW WE DIFFER FROM THE STREET

| | BNP | Consensus | % Diff |
|--------------------|----------|-----------|----------|
| Target Price (INR) | 140.00 | 136 | 2.9 |
| EPS 2010 (INR) | 2.27 | 2.10 | 19.7 |
| EPS 2011 (INR) | 2.16 | 2.69 | (19.7) |
| | Positive | Neutral | Negative |
| Market Recs. | 2 | 3 | 12 |

KEY STOCK DATA

| YE Mar (INR m) | 2010E | 2011E | 2012E |
|----------------------|--------|--------|--------|
| Revenue | 6,150 | 12,070 | 33,488 |
| Rec. net profit | 5,453 | 5,189 | 7,048 |
| Recurring EPS (INR) | 2.27 | 2.16 | 2.94 |
| Prior rec. EPS (INR) | 2.25 | 2.26 | 1.75 |
| Chg. In EPS est. (%) | 1.1 | (4.1) | 67.8 |
| EPS growth (%) | 123.0 | (4.8) | 35.8 |
| Recurring P/E (x) | 61.6 | 64.8 | 47.7 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 |
| EV/EBITDA (x) | 155.2 | 71.3 | 25.6 |
| Price/book (x) | 2.3 | 2.3 | 2.2 |
| Net debt/Equity | (25.1) | 35.9 | 120.9 |
| ROE (%) | 3.9 | 3.6 | 4.6 |

INDUSTRY OUTLOOK ↑

CHANGE IN RECOMMENDATION

A verdict at last

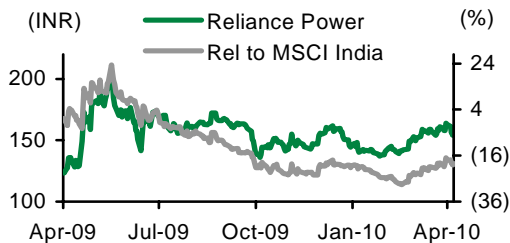
- **Setback from adverse verdict on gas dispute priced in.**
- **Upgrade stock to HOLD as we see limited downside.**
- **Retain probability based DCF based TP of INR140.**
- **We prefer Adani Power and NTPC over RPower at current levels.**

No Cheap Gas for RPower

The Supreme Court of India today ruled in favour of Reliance Industries Ltd (RIL) in its dispute with Reliance Natural Resources Ltd (RNRL). It overturns the high court judgment which had ruled in favour of RNRL. The Supreme Court, in effect, ruled that RNRL cannot enforce its right to purchase 28 mmscmd of KG Basin gas from RIL at USD2.34/mmbtu. RNRL had plans to supply the gas to Reliance Power's planned 7.5 GW Dadri Power plant. The verdict also does not allow RNRL the option to buy 40% of KG basin gas production in excess of 40 mmscmd, which it intended to use to fuel the planned 2.4 GW Shahapur project. We remove the Dadri and Shahapur projects from our probability-based valuation as we have no visibility on gas supplies for these projects. These projects accounted for about INR29/share to our previous TP of 140.00 for RPower. RNRL will now have to approach the government for allocation of gas at USD 4.2/mmbtu and negotiate afresh with RIL over the tenure and other modalities for gas supplies.



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| Share price performance | 1 Month | 3 Month | 12 Month |
|-------------------------|---------|---------|----------|
| Absolute (%) | 6.0 | 11.3 | 30.8 |
| Relative to country (%) | 7.4 | 3.1 | (28.7) |

| | |
|---------------------------------|---------------------------------------|
| Next results | May 2010 |
| Mkt cap (USD m) | 7,417 |
| 3m avg daily turnover (USD m) | 5.2 |
| Free float (%) | 15 |
| Major shareholder | Reliance Infrastructure Limited (42%) |
| 12m high/low (INR) | 200.20/128.15 |
| 3m historic vol. (%) | 28.9 |
| ADR ticker | - |
| ADR closing price (USD; [DATE]) | - |

Sources: Bloomberg consensus; BNP Paribas estimates

RECENT COMPANY & SECTOR RESEARCH

| | |
|------------------------------------|-------------|
| Running ahead of fundamentals..... | 16 Jun 2009 |
| Drought to boost coal demand | 8 Apr 2010 |
| Upbeat 2009, but tough 2010..... | 16 Mar 2010 |

Retain probability based TP of INR 140

Although the removal of gas-based projects from our valuations reduces INR29 from our TP, it is entirely offset by the following changes to our valuation: 1) rollover of our probability-based DCF valuation from FY10 to FY11, 2) factoring in an additional 300MW of merchant capacity, which RPower plans to set up at Butibori in addition to the 300 MW it is already building there, and 3) factoring in higher tariffs for 300MW of Rosa Ph-II (b) project, which RPower intends to run as a merchant power plant. We continue to use a cost of equity of 16.5% and a cost of debt of 10.2%. Our TP remains unchanged at INR140/share. Our FY11E earnings are down slightly, as we assume a 3-month delay in the start-up of the first 300MW unit at Butibori. However, we raise our FY12E earnings 67.8% on account of about 600MW of merchant plants coming online versus our earlier estimate of 300MW of capacity earning much lower tariffs.

See limited downside post correction; upgrade to HOLD RPower has lost 10% YTD (versus Sensex loss of 4.5%). We see limited downside from current levels – upgrade to HOLD, from Reduce. We would not advise buying the stock as it is expensive – trading at an FY12 EV-EBITDA of 27.5x versus Adani Power at 6.8x and NTPC at 9.8x. Upside could come if RPower makes progress in securing gas for its planned gas power plants or completes projects ahead of schedule. Downside would stem from execution delays.

Exhibit 1: Change In Our Probability Based Valuation Of Rpower's Project

| Project | Capacity (MW) | Previous | | | Current | | |
|-------------------|------------------|---------------------|--------------------|--|----------------------|--------------------|--|
| | | Cont/share (INR) | Probability (%) | Probability weighted cont/share (INR) | Cont/ share (INR) | Probability (%) | Probability weighted cont/share (INR) |
| Rosa Phase I | 600 | 3 | 100 | 3 | 4 | 100 | 4 |
| Rosa Phase II (a) | 300 | 1 | 100 | 1 | 2 | 100 | 2 |
| Rosa Phase II (b) | 300 | 3 | 100 | 3 | 9 | 100 | 9 |
| Butibori* | 600 | 7 | 100 | 7 | 14 | 100 | 14 |
| Sasan | 3,960 | 23 | 100 | 23 | 26 | 100 | 24 |
| Shahpur Coal | 1,200 | 8 | 100 | 8 | 9 | 100 | 9 |
| Shahpur gas | 2,800 | 19 | 50 | 10 | 19 | 0 | 0 |
| Dadri | 7,480 | 38 | 50 | 19 | 38 | 0 | 0 |
| Chitrangi | 3,960 | 44 | 50 | 22 | 49 | 50 | 25 |
| Krishnapatnam | 4,000 | 28 | 100 | 28 | 30 | 100 | 30 |
| Tilaiya | 4,000 | 27 | — | — | 29 | 0 | 0 |
| Sumatra Mines | — | 17 | 100 | 17 | 23 | 100 | 23 |
| Rampia | 1,320 | 15 | — | — | 15 | 0 | 0 |
| Urthing Sobla | 400 | 4 | — | — | 4 | 0 | 0 |
| Siyom | 1,000 | 7 | — | — | 7 | 0 | 0 |
| Tato II | 700 | 8 | — | — | 8 | 0 | 0 |
| Kalai II | 1,200 | 9 | — | — | 9 | 0 | 0 |
| Other Hydro | 1,320 | 12 | — | — | 12 | 0 | 0 |
| Total | | 273 | | 140 | 307 | | 140 |

* Butibori capacity addition target increased from 300 MW to 600 MW
Source: BNP Paribas estimates

Exhibit 2: Overview Of Rpower's Planned Power Project Timelines

| Project | Project type | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | Total |
|-----------------------------|--------------------|------------|------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Domestic coal | | | | | | | | | | | |
| Rosa Phase I | Regulated | 600 | - | - | - | - | - | - | - | - | 600 |
| Rosa Phase II (a) | Regulated | - | - | 300 | - | - | - | - | - | - | 300 |
| Rosa Phase II (b) | Merchant | - | - | 300 | - | - | - | - | - | - | 300 |
| Butibori* | Captive/Merchant | - | 300 | 300 | - | - | - | - | - | - | 600 |
| Sasan | UMPP | - | - | 660 | 3,300 | - | - | - | - | - | 3,960 |
| Chitrangi (MP Power) | Merchant/bid based | - | - | - | - | 2,640 | 1,320 | - | - | - | 3,960 |
| Rampia Mines | Merchant/bid based | - | - | 660 | 660 | - | - | - | - | - | 1,320 |
| Tilayya | UMPP | - | - | - | - | - | - | 800 | 1,600 | 1,600 | 4,000 |
| Imported coal | | | | | | | | | | | |
| Shahpur Coal | Merchant/bid based | - | - | - | 1,200 | - | - | - | - | - | 1,200 |
| Krishnapatnam | UMPP | - | - | - | - | 1,600 | 1,600 | 800 | - | - | 4,000 |
| Gas | | | | | | | | | | | |
| Shahpur gas (2.8 GW) | Merchant/bid based | - | - | - | - | - | - | - | - | - | - |
| Dadri (7.5 GW) | Merchant/bid based | - | - | - | - | - | - | - | - | - | - |
| Hydro | | | | | | | | | | | |
| Urthing Sobla | Merchant/bid based | - | - | - | - | 400 | - | - | - | - | 400 |
| Siyom | Merchant/bid based | - | - | - | - | - | 1,000 | - | - | - | 1,000 |
| Tato II | Merchant/bid based | - | - | - | - | 700 | - | - | - | - | 700 |
| Kalai II | Merchant/bid based | - | - | - | - | - | - | 1,200 | - | - | 1,200 |
| Amulini, Emini, & Mithundon | Merchant/bid based | - | - | - | - | - | 1,320 | - | - | - | 1,320 |
| Capacity addition | | 600 | 300 | 2,220 | 5,160 | 5,340 | 5,240 | 2,800 | 1,600 | 1,600 | 24,860 |
| Total capacity | | 600 | 900 | 3,120 | 8,280 | 13,620 | 18,860 | 21,660 | 23,260 | 24,860 | |

* Capacity Addition target increased from 300 MW to 600 MW
Sources: Company; BNP Paribas estimates

FINANCIAL STATEMENTS

Reliance Power

| Profit and Loss (INR m) Year Ending Mar | 2008A | 2009A | 2010E | 2011E | 2012E |
|--|--------------|----------------|--------------|--------------|---------------|
| Revenue | 0 | 0 | 6,150 | 12,070 | 33,488 |
| Cost of sales ex depreciation | 0 | 0 | (2,806) | (5,266) | (11,037) |
| Gross profit ex depreciation | 0 | 0 | 3,344 | 6,803 | 22,450 |
| Other operating income | 0 | 0 | 0 | 0 | 0 |
| Operating costs | (350) | (1,014) | (1,554) | (1,966) | (4,578) |
| Operating EBITDA | (350) | (1,014) | 1,790 | 4,838 | 17,872 |
| Depreciation | 0 | (2) | (724) | (2,072) | (5,661) |
| Goodwill amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | (350) | (1,016) | 1,066 | 2,766 | 12,212 |
| Net financing costs | 1,271 | 3,586 | 5,011 | 3,186 | (2,728) |
| Associates | 0 | 0 | 0 | 0 | 0 |
| Recurring non operating income | 0 | 0 | 0 | 0 | 0 |
| Non recurring items | 0 | 0 | 0 | 0 | 0 |
| Profit before tax | 921 | 2,570 | 6,077 | 5,952 | 9,484 |
| Tax | (68) | (125) | (624) | (616) | (1,123) |
| Profit after tax | 854 | 2,445 | 5,453 | 5,336 | 8,361 |
| Minority interests | 0 | 0 | 0 | (147) | (1,312) |
| Preferred dividends | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 854 | 2,445 | 5,453 | 5,189 | 7,048 |
| Non recurring items & goodwill (net) | 0 | 0 | 0 | 0 | 0 |
| Recurring net profit | 854 | 2,445 | 5,453 | 5,189 | 7,048 |

Revenues start with start of Rosa project in FY10

Per share (INR)

| | | | | | |
|-----------------|------|------|------|------|------|
| Recurring EPS * | 0.15 | 1.02 | 2.27 | 2.16 | 2.94 |
| Reported EPS | 0.15 | 1.02 | 2.27 | 2.16 | 2.94 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Growth

| | | | | | |
|----------------------|-----------|--------|-------------|-------|-------|
| Revenue (%) | (100.0) | (90.0) | 61,503,648, | 96.2 | 177.5 |
| Operating EBITDA (%) | (2,672.0) | 189.8 | (276.6) | 170.2 | 269.4 |
| Operating EBIT (%) | (2,672.0) | 190.4 | (204.9) | 159.4 | 341.6 |
| Recurring EPS (%) | 29.5 | 585.1 | 123.0 | (4.8) | 35.8 |
| Reported EPS (%) | (19.2) | 585.1 | 123.0 | (4.8) | 35.8 |

Operating performance

| | | | | | |
|---|-------------|-------------|--------|--------|--------|
| Gross margin inc depreciation (%) | - | - | 42.6 | 39.2 | 50.1 |
| Operating EBITDA margin (%) | - | - | 29.1 | 40.1 | 53.4 |
| Operating EBIT margin (%) | - | - | 17.3 | 22.9 | 36.5 |
| Net margin (%) | - | - | 88.7 | 43.0 | 21.0 |
| Effective tax rate (%) | 7.3 | 4.9 | 10.3 | 10.3 | 11.8 |
| Dividend payout on recurring profit (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest cover (x) | - | - | - | - | 4.5 |
| Inventory days | - | - | 71.6 | 90.9 | 98.0 |
| Debtor days | 42,041,809, | 19,586,192, | 30.0 | 45.3 | 40.8 |
| Creditor days | - | - | 58.7 | 67.2 | 63.2 |
| Operating ROIC (%) | (11.0) | (3.1) | 1.2 | 1.6 | 3.9 |
| Operating ROIC – WACC (%) | (28.3) | (20.4) | (16.1) | (15.7) | (13.4) |
| ROIC (%) | (11.0) | (3.1) | 1.2 | 1.6 | 3.9 |
| ROIC – WACC (%) | (28.3) | (20.4) | (16.1) | (15.7) | (13.4) |
| ROE (%) | 1.2 | 1.8 | 3.9 | 3.6 | 4.6 |
| ROA (%) | (0.4) | (0.6) | 0.5 | 1.0 | 3.2 |

* Pre exceptional, pre-goodwill and fully diluted

| Revenue By Division (INR m) | 2008A | 2009A | 2010E | 2011E | 2012E |
|-----------------------------|-------|-------|-------|--------|--------|
| Power Generation & others | 0 | 0 | 6,150 | 12,070 | 33,488 |

Sources: Reliance Power; BNP Paribas estimates

Reliance Power

| Cash Flow (INR m) | | | | | |
|---------------------------------|----------------|-----------------|-----------------|-----------------|------------------|
| Year Ending Mar | 2008A | 2009A | 2010E | 2011E | 2012E |
| Recurring net profit | 854 | 2,445 | 5,453 | 5,189 | 7,048 |
| Depreciation | 0 | 2 | 724 | 2,072 | 5,661 |
| Associates & minorities | 0 | 0 | 0 | 147 | 1,312 |
| Other non-cash items | 0 | 0 | 0 | 0 | 0 |
| Recurring cash flow | 854 | 2,447 | 6,177 | 7,408 | 14,021 |
| Change in working capital | (167) | (6,434) | (941) | (924) | (4,992) |
| Capex - maintenance | 0 | 0 | 0 | 0 | 0 |
| Capex – new investment | (3,615) | (46,557) | (49,760) | (95,826) | (145,299) |
| Free cash flow to equity | (2,928) | (50,543) | (44,524) | (89,341) | (136,270) |
| Net acquisitions & disposals | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 |
| Non recurring cash flows | 0 | 0 | 0 | 0 | 0 |
| Net cash flow | (2,928) | (50,543) | (44,524) | (89,341) | (136,270) |
| Equity finance | 123,622 | 0 | 0 | 0 | 0 |
| Debt finance | 1,627 | 18,154 | 36,870 | 69,866 | 104,337 |
| Movement in cash | 122,320 | (32,389) | (7,654) | (19,476) | (31,933) |

Per share (INR)

| | | | | | |
|-------------------------------|--------|---------|---------|---------|---------|
| Recurring cash flow per share | 0.15 | 1.02 | 2.58 | 3.09 | 5.85 |
| FCF to equity per share | (0.51) | (21.09) | (18.58) | (37.27) | (56.85) |

Balance Sheet (INR m)

| Year Ending Mar | 2008A | 2009A | 2010E | 2011E | 2012E |
|-----------------------------------|------------------|-----------------|-----------------|----------------|----------------|
| Working capital assets | 607 | 607 | 2,111 | 3,507 | 9,910 |
| Working capital liabilities | (6,603) | (170) | (733) | (1,205) | (2,616) |
| Net working capital | (5,996) | 437 | 1,378 | 2,302 | 7,294 |
| Tangible fixed assets | 10,310 | 56,864 | 105,901 | 199,654 | 339,292 |
| Operating invested capital | 4,313 | 57,302 | 107,279 | 201,956 | 346,587 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| Other intangible assets | 0 | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| Invested capital | 4,313 | 57,302 | 107,279 | 201,956 | 346,587 |
| Cash & equivalents | (135,503) | (103,114) | (95,460) | (75,984) | (44,051) |
| Short term debt | 0 | 0 | 0 | 0 | 0 |
| Long term debt * | 4,483 | 22,637 | 59,507 | 129,373 | 233,709 |
| Net debt | (131,021) | (80,477) | (35,953) | 53,388 | 189,658 |
| Deferred tax | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | 0 | 0 | 0 | 0 | 0 |
| Total equity | 135,334 | 137,779 | 143,232 | 148,421 | 155,469 |
| Minority interests | 0 | 0 | 0 | 147 | 1,459 |
| Invested capital | 4,313 | 57,302 | 107,279 | 201,956 | 346,587 |

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

Per share (INR)

| | | | | | |
|-------------------------------|-------|-------|-------|-------|-------|
| Book value per share | 23.60 | 57.48 | 59.75 | 61.92 | 64.86 |
| Tangible book value per share | 23.60 | 57.48 | 59.75 | 61.92 | 64.86 |

Financial strength

| | | | | | |
|---------------------------|--------|--------|--------|------|-------|
| Net debt/equity (%) | (96.8) | (58.4) | (25.1) | 35.9 | 120.9 |
| Net debt/total assets (%) | (89.5) | (50.1) | (17.7) | 19.1 | 48.2 |
| Current ratio (x) | 20.6 | 611.8 | 133.1 | 66.0 | 20.6 |
| CF interest cover (x) | - | - | - | - | 4.3 |

| Valuation | 2008A | 2009A | 2010E | 2011E | 2012E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Recurring P/E (x) * | 941.7 | 137.4 | 61.6 | 64.8 | 47.7 |
| Recurring P/E @ target price (x) * | 940.3 | 137.2 | 61.5 | 64.7 | 47.6 |
| Reported P/E (x) | 941.7 | 137.4 | 61.6 | 64.8 | 47.7 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| P/CF (x) | 941.7 | 137.3 | 54.4 | 45.4 | 24.0 |
| P/FCF (x) | (274.5) | (6.6) | (7.5) | (3.8) | (2.5) |
| Price/book (x) | 5.9 | 2.4 | 2.3 | 2.3 | 2.2 |
| Price/tangible book (x) | 5.9 | 2.4 | 2.3 | 2.3 | 2.2 |
| EV/EBITDA (x) ** | (1,001.4) | (458.0) | 155.2 | 71.3 | 25.6 |
| EV/EBITDA @ target price (x) ** | (999.7) | (457.2) | 154.9 | 71.2 | 25.6 |
| EV/invested capital (x) | 156.0 | 4.5 | 2.8 | 1.9 | 1.5 |

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Reliance Power; BNP Paribas estimates

DISCLAIMERS & DISCLOSURES

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All share prices are as at market close on 7 May 2010 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. 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.

Should you require additional information please contact the relevant BNP Paribas research team or the author(s) of this report.

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