

Lowering estimates on iron ore price revision

**Bank of America
Merrill Lynch**

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Cutting est. on lower iron ore prices, Underperform

Our global team has cut its spot price est. for FY12/13 by 8%/2% ([Metals Strategist, 01 December 2011](#)) due to the worsening macro. We cut our FY12-13E EPS by 3-7% and our PO to Rs195 as we incorporate the lower spot price est., lower vols. and a weaker INR. We believe iron ore prices could correct further and retest recent lows of US\$120/t CFR in the near term (spot US\$133/t), but the medium-term outlook remains positive, in our view. We remain cautious on Sesa as it faces multiple headwinds due to the mining ban uncertainty in Karnataka, the risk of mining/export curbs in Goa (~90% of vols.) due to illegal mining concerns, logistic issues in Goa and the proposed mining tax.

FY12E EPS of Rs36.0 and FY13E EPS of Rs35.9

We forecast ASP of Rs4411/t in FY12 and Rs4060/t in FY13e. We also factor in lower output from Karnataka mines in FY13. We forecast volumes of 18.9wmt in FY12e (-7%YoY) and 22wmt in FY13e (16%YoY). Our base-case forecast assumes the Karnataka mining ban is lifted and Sesa's Karnataka mine restarts in FY13. Our FY13e EPS would be lower by 14%, at Rs30.8, if the mining ban continues in FY13.

Iron ore: near-term pressure, positive medium term

We expect spot prices to correct near term, due to weak Chinese steel demand (assuming no significant monetary easing) and high iron ore inventory levels. But Chinese steel demand growth (5.8%YoY in CY12E), high Chinese costs and continued supply issues should support prices in the medium term. BoFAML forecasts spot prices of US\$159/t in FY12 and US\$151/t in FY13e.

Karnataka mining ban hearing deferred till Jan

The Supreme Court has deferred the hearing on the Karnataka mining ban until Jan 20. This delays the potential resolution of the mining ban. Also potential export/ mining curbs in Goa, due to the ongoing illegal mining enquiry, are a worry. But the submission of the Shah Commission report has been deferred to January (Dec 1st earlier).

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	26,291	42,225	32,354	32,352	27,795
EPS	29.21	46.92	35.95	35.95	30.88
EPS Change (YoY)	16.7%	60.6%	-23.4%	0%	-14.1%
Dividend / Share	2.91	3.48	2.56	2.52	2.16
Free Cash Flow / Share	8.72	30.01	29.09	31.71	28.16

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	6.48x	4.03x	5.26x	5.26x	6.13x
Dividend Yield	1.54%	1.84%	1.35%	1.33%	1.14%
EV / EBITDA*	2.95x	1.78x	1.93x	2.02x	2.39x
Free Cash Flow Yield*	4.16%	14.97%	15.11%	16.75%	14.88%

* For full definitions of *iQmethod*SM measures, see page 10.

Stock Data

Price	Rs189.25
Price Objective	Rs195.00
Date Established	1-Dec-2011
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	Rs165.35-Rs346.50
Mrkt Val / Shares Out (mn)	US\$3,263 / 900.0
Market Value (mn)	Rs170,325
Average Daily Volume	3,005,115
BofAML Ticker / Exchange	XSGAF / BSE
Bloomberg / Reuters	SESA IN / SESA.BO
ROE (2012E)	21.8%
Net Dbt to Eqty (Mar-2011A)	0.8%
Est. 5-Yr EPS / DPS Growth	3.0% / NA
Free Float	49.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	221.00	195.00
2012E EPS	38.85	35.95
2013E EPS	37.11	35.95
2014E EPS	33.02	30.88
2012E EBITDA (m)	51,813.0	48,052.2
2013E EBITDA (m)	47,290.3	45,924.3
2014E EBITDA (m)	41,424.9	38,840.8

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Refer to important disclosures on page 11 to 13. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8. Link to Definitions on page 8.11115365

iQprofileSM Sesa Goa Limited

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	58,583	92,051	90,392	95,935	94,984
Gross Profit	33,718	54,957	50,519	49,073	42,512
Sell General & Admin Expense	(2,232)	(2,894)	(2,466)	(3,149)	(3,671)
Operating Profit	30,741	51,099	47,038	44,839	37,720
Net Interest & Other Income	3,705	4,498	(485)	1,377	1,987
Associates	NA	NA	NA	NA	NA
Pretax Income	34,446	55,597	46,553	46,217	39,707
Tax (expense) / Benefit	(8,056)	(13,372)	(14,199)	(13,865)	(11,912)
Net Income (Adjusted)	26,291	42,225	32,354	32,352	27,795
Average Fully Diluted Shares Outstanding	900	900	900	900	900

Key Cash Flow Statement Data

Net Income	26,291	42,225	32,354	32,352	27,795
Depreciation & Amortization	745	964	1,014	1,085	1,121
Change in Working Capital	1,791	(3,037)	3,867	(807)	(1,388)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(3,114)	(4,816)	495	(595)	(1,362)
Cash Flow from Operations	25,713	35,335	37,729	32,034	26,166
Capital Expenditure	(18,622)	(9,841)	(12,000)	(3,500)	(820)
(Acquisition) / Disposal of Investments	(13,643)	(41,309)	(59,626)	0	0
Other Cash Inflow / (Outflow)	(21,676)	21,503	2,845	4,707	5,317
Cash Flow from Investing	(53,941)	(29,647)	(68,782)	1,207	4,497
Shares Issue / (Repurchase)	5,372	0	0	0	0
Cost of Dividends Paid	(2,064)	(3,281)	(2,582)	(2,582)	(2,218)
Cash Flow from Financing	26,821	(4,197)	31,630	(5,912)	(5,548)
Free Cash Flow	7,091	25,493	25,729	28,534	25,346
Net Debt	(4,313)	1,024	27,452	122	(24,993)
Change in Net Debt	24,983	(1,557)	36,964	(27,330)	(25,115)

Key Balance Sheet Data

Property, Plant & Equipment	22,557	31,443	42,429	44,844	44,543
Other Non-Current Assets	45,649	87,998	147,624	147,624	147,624
Trade Receivables	3,381	6,830	5,816	6,045	5,985
Cash & Equivalents	23,918	8,970	9,548	36,878	61,993
Other Current Assets	16,877	20,795	17,763	18,639	19,284
Total Assets	112,382	156,037	223,180	254,030	279,430
Long-Term Debt	19,606	9,995	37,000	37,000	37,000
Other Non-Current Liabilities	750	682	682	682	682
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	12,416	17,256	17,085	18,165	17,988
Total Liabilities	32,772	27,933	54,767	55,847	55,670
Total Equity	79,610	128,104	168,413	198,183	223,760
Total Equity & Liabilities	112,382	156,037	223,180	254,030	279,430

iQmethodSM - Bus Performance*

Return On Capital Employed	36.2%	35.9%	19.5%	15.0%	11.6%
Return On Equity	41.6%	40.7%	21.8%	17.6%	13.2%
Operating Margin	52.5%	55.5%	52.0%	46.7%	39.7%
EBITDA Margin	53.7%	56.6%	53.2%	47.9%	40.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.0x	0.8x	1.2x	1.0x	0.9x
Asset Replacement Ratio	25.0x	10.2x	11.8x	3.2x	0.7x
Tax Rate (Reported)	23.4%	24.1%	30.5%	30.0%	30.0%
Net Debt-to-Equity Ratio	-5.4%	0.8%	16.3%	0.1%	-11.2%
Interest Cover	NM	NM	14.1x	13.5x	11.3x

Key Metrics

* For full definitions of iQmethodSM measures, see page 10.

Company Description

Sesa Goa is India's largest private sector producer exporter of iron ore with sales of 20.3n tons (FY11). Vedanta Resources owns 51% stake in the Company. It has mining operations in Goa, Karnataka and Orissa and exports 93% of its production. Total reserves and resources are 306mt (March 11). It also has small presence in met coke and pig iron business.

Investment Thesis

We believe volume headwinds for Sesa Goa have increased due to uncertainty around the ongoing Karnataka ban and the closure of Orissa operations. Also, Goa approvals are on hold due to the mining policy. This clouds the volume outlook, in our view. We expect EPS growth to be muted despite our bullish iron ore view. We see scope for further derating on increasing volume concerns and reducing mine life. Hence, our Underperform.

Stock Data

Price to Book Value 1.0x

Table 1: BofAML Iron ore forecast

US\$/t	FY12e	FY13e	FY14e
Spot CFR (US\$/t)			
New	159	151	141
Old	173	155	145
% chg	-8%	-2%	-3%

Source: BofA Merrill Lynch Global Research Estimates

Changes to earnings forecasts

- Our global team has cut its iron ore spot forecast for FY12 by 8%, to US\$159/t, and for FY13 by 2%, to US\$151/t. (see [Metals Strategist, 01 December 2011](#)). We have also factored in a weaker INR. We forecast ASP of Rs4411/t in FY12 and US\$4060/t in FY13.
- We have cut our FY12-13E EPS by 3-7% and our PO to Rs195 (Rs221 earlier), as we incorporate the lower spot price forecasts, lower volumes and a weaker INR.
- We have maintained our FY12 volume forecast at 18.9wmt (-7%YoY), but have cut our FY13 volume forecasts by 3% to 22wmt (16%YoY) due to lower Karnataka volumes. Our base case assumes the mining ban is resolved in 4QFY12 and Sesa Goa's Karnataka mines restart in FY13. However, the Supreme Court has now delayed the hearing to Jan. Hence, there is risk of delays.
- Our base-case forecast assumes the Karnataka mining ban is lifted and Sesa's Karnataka mine restarts in FY13. Our FY13e EPS would be lower by 14%, at Rs30.8, if mining ban continues in FY13.

Table 2: Summary Changes in Earnings Outlook**

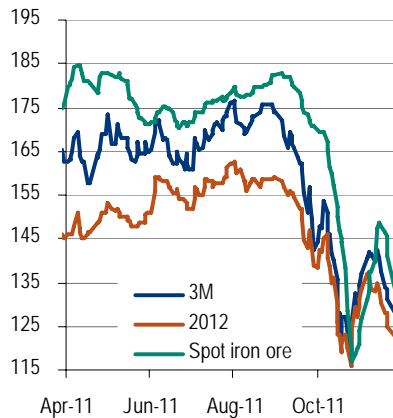
in mn Rs.	FY12E			FY13E			FY14E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Revenue	90,392	95,024	-5%	95,935	98,130	-2%	94,984	100,546	-6%
EBITDA	48,052	51,813	-7%	45,924	47,290	-3%	38,841	41,425	-6%
Margins	53%	55%		48%	48%		41%	41%	
Depreciation	1,014	1,014	0%	1,085	1,085	0%	1,121	1,124	0%
Interest	485	485	0%	(1,377)	(1,506)	-9%	(1,987)	(2,152)	-8%
PBT	46,553	50,313	-7%	46,217	47,711	-3%	39,707	42,453	-6%
Tax	14,199	15,346		13,865	14,313		11,912	12,736	
PAT	32,354	34,968	-7%	32,352	33,398	-3%	27,795	29,717	-6%
EPS (Rs.)	36.0	38.9	-7%	35.9	37.1	-3%	30.9	33.0	-6%
Volumes (Iron ore) (mt)	18.9	18.9	0%	22.0	22.7	-3%	23.8	24.6	-3%
Realization- Rs/t	4,411	4,672	-6%	4,060	4,051	0%	3,729	3,840	-3%
Spot CFR - US\$/t	159	173	-8%	151	155	-2%	141	145	-3%
Fx	47.6	46.5	2%	48.0	45.5	5%	46.0	45.0	2%

Source: Sesa Goa, BofA Merrill Lynch Global Research Estimates **= our earnings estimates do not include earnings from proposed oil asset acquisition

Cross Reference

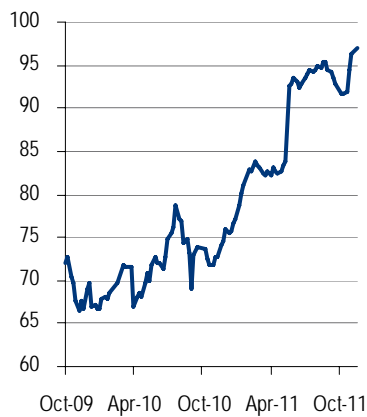
This section has been extracted from our global team's note [Metals Strategist, 01 December 2011](#) authored by Michael Widmer/Felipe Hirai, CFA.

Chart 1: Iron ore swaps versus spot



Source: BofA Merrill Lynch Global Research

Chart 2: Iron ore inventories at Chinese ports



Source: Bloomberg, BofA Merrill Lynch Global Research

Iron Ore Outlook Overview

Given that global macro economic conditions have been worsening and uncertainty over the Chinese economy persist, we have cut our iron ore price estimates by US\$10/t, to US\$150/t, in 2012 and US\$5 to US\$145/t in 2013. In the immediate short term, volatility could remain high, with prices potentially retesting recent lows, suggesting scope for a price drop to US\$120/mt from around US\$133.5/mt at present.

Nevertheless, despite these downgrades, our new forecasts imply that there is upside for iron ore next year. This is heavily influenced by our fairly positive view on Chinese steel production, estimated to grow at 5.8% YoY in 2012.

Table 3: New quarterly iron ore price estimate

Spot (Platts 62%)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
New - US\$/dmt CFR	180.1	177.5	177.6	140.0	140	150	155	155
Old - US\$/dmt CFR	180.1	177.5	177.6	165.0	170	160	150	160
Change (%)	0.0%	0.0%	0.0%	-15.2%	-17.6%	-6.3%	3.3%	-3.1%

Source: BofA Merrill Lynch Global Research

Table 4: New annual iron ore price estimate – No change in long term

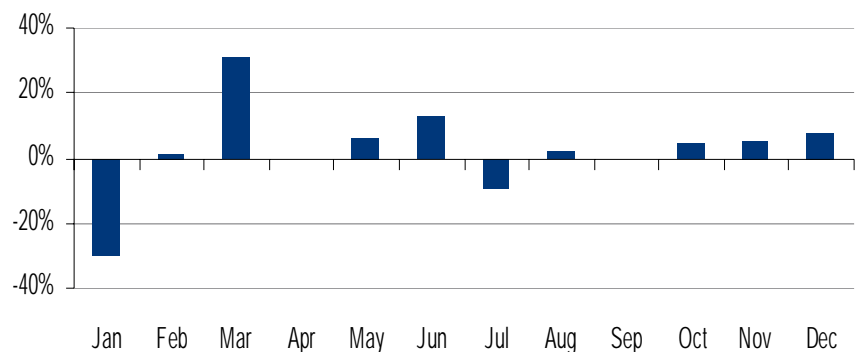
Spot (Platts 62%)	2011	2012	2013	2014	2015	2016	2017
New - US\$/dmt CFR	168.8	150.0	145.0	130.0	100.0	95.0	90.0
Old - US\$/dmt CFR	175.1	160.0	150.0	130.0	100.0	95.0	90.0
Change (%)	-3.6%	-6.3%	-3.3%	0.0%	0.0%	0.0%	0.0%

Source: BofA Merrill Lynch Global Research

Volatility could persist; rebound in early 2012

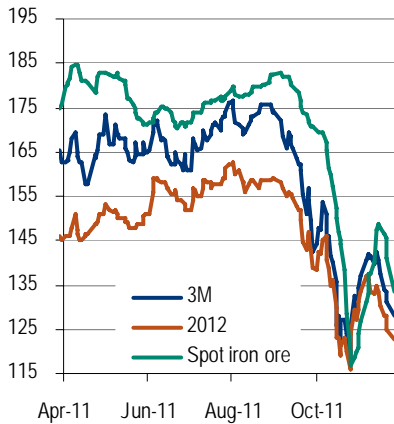
China remains a key determinant for prices of iron ore and a quick succession of steel inventory de-stocking and re-stocking cycles in the country have been the main driver for the commodity. Assuming no significant easing in Chinese monetary policy, steel consumption could remain weak and iron ore inventories high (Chart 2), suggesting more downward pressure on prices in the short term.

Chart 3: Chinese domestic iron ore production MoM change



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 4: Iron ore swaps versus spot



Source: BofA Merrill Lynch Global Research

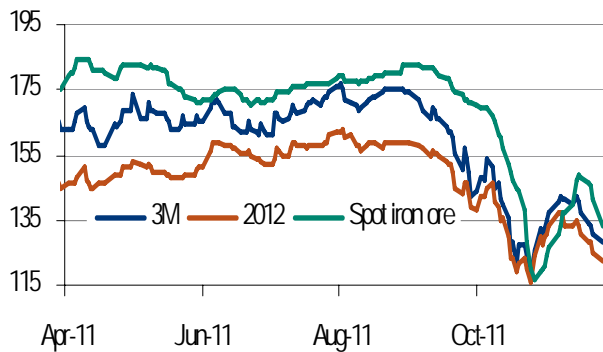
However, seasonalities can cap iron ore supply at the outset of a year, partially because of cyclones in Australia and the rainy season in Brazil, which can limit the downside. Weather-related disruptions could hit iron ore supply also in 2012:

- According to the Bureau of Meteorology, it looks like a handful of cyclones may affect weather in Australia.
- Weather research experts are forecasting that 2012 may be impacted by La Niña. Acknowledging that it is hard to estimate the precise impact of this weather phenomenon, it could increase the rainfall to 50% above the average in North Brazil.

Swaps suggest mild correction of iron ore prices

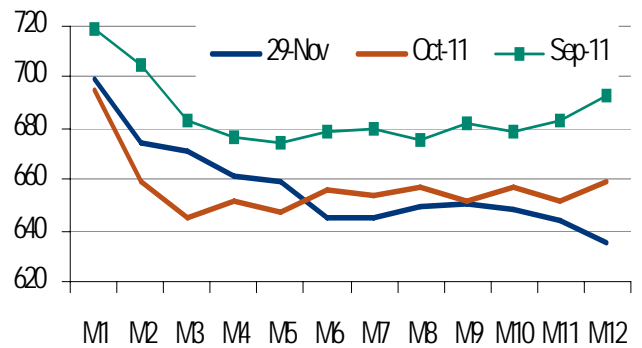
We note that three-month iron ore swaps at US\$130/mt (Chart 44) point to just a mild correction in iron ore prices. Swaps have led the downward correction in mid-October, but now are trading close to spot prices. On steels, swaps still point to a correction, from the current US\$675/mt spot price. This is important because expectations of lower steel prices should dampen sentiment on the steel market, preventing mills from aggressively buying iron ore in the short term.

Chart 5: Iron ore swaps versus spot



Source: BofA Merrill Lynch Global Research

Chart 6: Chinese steel swaps



Source: BofA Merrill Lynch Global Research

Higher Chinese cost = higher short term price support

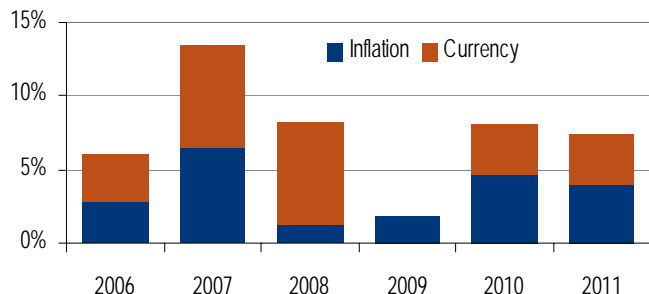
The iron ore market passed an important test in late October, when prices hit a bottom at US\$117/t. Prices quickly rebounded and this was an indication that this should be a very strong floor levels for prices in the medium term. We estimate that the average costs of iron ore production in China is now at US\$120/mt, compared with US\$80/mt just three years ago.

This is corroborated from a recent trip to China. Although it was hard to find good data supporting calculating a production cost curve of domestic iron ore, anecdotal evidence from most industry participants suggested that average cost should be around US\$110-120/mt. One steel maker confirmed it has an average iron ore cost of RMB600/mt at a 350kt mine, which is large and efficient for Chinese standards. Incidentally, upward pressure on costs during the past few years has been driven mostly by (see also Chart 77 and Chart 88) the following factors:

- domestic inflation; if we adjust the 2008 trough levels to current “real” prices, the new trough should be US\$100/mt

- currency appreciation and
- lower iron ore grades.

Chart 7: Inflation and currency appreciation



Source: BofA Merrill Lynch Global Research

Chart 8: Chinese iron ore grades



Source: BofA Merrill Lynch Global Research

Tightness expected in the medium term Demand set to increase...

Despite the short-term volatility, we remain relatively positive on the iron ore market in the medium term. Overall, our supply and demand balance for iron ore has not changed, as lower steel production in Europe is being offset by higher production in other regions, especially in Asia ex-China.

Table 5: Key assumptions in our iron ore S&D model

Million metric tons	2009	2010	2011	2012	2013	2014	2015
China steel production	568	626	690	730	775	802	830
China iron ore imports	629	617	665	741	814	947	1,016
China iron ore production	291	363	413	402	402	309	291
European steel production	139	173	175	172	177	182	186
European iron ore imports	83	102	105	96	96	95	98
Australian iron ore exports	364	401	443	494	533	585	641
Brazilian iron ore exports	266	311	323	327	353	421	453
Indian iron ore export	116	105	70	70	70	70	50

Source: BofA Merrill Lynch Global Research

The key driver to a tight supply and demand balance in 2012 is Chinese steel production growth. Assuming a GDP growth rate above 8%, we think it is unlikely that the country's steel production growth can be flat or even decline. We estimate a 5.8% increase of steel output in China next year, enough to keep the market tight (Table 55).

... while supply challenges persist Challenges to Indian iron ore supply

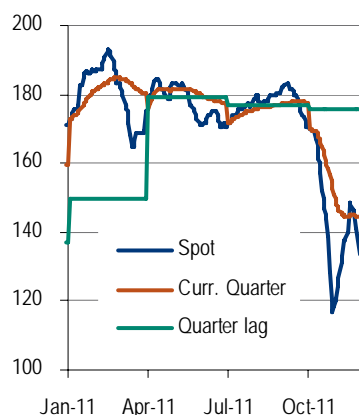
Indian iron ore supply is once again in question with another delay announced in the legal dispute over mining Karnataka. The Supreme Court (SC) has deferred the hearing on the Karnataka mining ban (output 40mt) to Jan 20th. There was some speculation that SC may allow mines with no violation (~10 mtpa) to restart. This does not affect seaborne trade/ or spot prices near term, as exports are not allowed in Karnataka at present. We maintain our estimate of a flat 70mt export from India in the next few years.

700mt new iron ore needed, according to Rio Tinto

In a recent market briefing, Rio Tinto suggested that 100mt per year of new iron ore production should be required in the 2012-2018 period, summing up to a total of 700mt in extra capacity.

75% of this is to support demand growth and 25% to replace high cost tonnes exiting the market. This higher demand is in line with our estimate of increases in supply on the seaborne market. If Rio is correct and just 25% of domestic iron ore production in China is substituted, iron ore prices are unlikely dropping below US\$140/mt in the next 7 years.

Chart 9: Iron ore spot prices, current quarter price and quarter lag price



Source: BofA Merrill Lynch Global Research

Vale recently announced a US\$215/mt expansion

During a presentation in NY this week, Vale released an update of its capex plan. The project that got most attention was Vale's Carajas Serra Sul (S11D) site, which saw a significant cost increase and delays. The company now expects a total capex, including logistics of US\$19.4bn for 90mt (US\$215/mt), 70% above the previous estimate, and delayed the start-up to 2016, from 2014 previously. This is in line with our estimates, but should be an alarming sign to junior miners chasing financing. Cost inflation is still an important phenomenon, negatively impacting the iron ore industry.

Contracts evolving; further move towards spot

Iron ore contract pricing continues to evolve. The quarterly lagging pricing mechanism is not yet dead, but should have the same fate as the old benchmark system. With more dynamic markets and development of financial instruments, iron ore pricing should continue to evolve to a more spot based mechanism. Vale has already confirmed a minority part of its sales is done under the quarter lag contract. For Rio Tinto, the mix is 17% spot, 25% monthly, 25% quarterly actual, and 33% quarterly lagging (Japan, Korea, Taiwan). Important to highlight that customers are being told that there is no going back, if/when they change. Chart 99 shows the difference in spot, current quarter and lagging quarter prices.

Table 6: Summary of Earnings Outlook for Sesa Goa

in mn Rs.	FY11	FY12e	FY13e	FY14e
Revenues	92,051	90,392	95,935	94,984
y-o-y change	57%	-2%	6%	-1%
EBITDA				
Iron Ore	49,489	46,519	44,336	37,001
Pig iron/Met Coke	2,575	1,533	1,588	1,839
Group EBITDA	52,063	48,052	45,924	38,841
y-o-y change	65%	-8%	-4%	-15%
Margins	57%	53%	48%	41%
Depreciation	964	1,014	1,085	1,121
Interest/ Other Income net	-4498	485	-1377	-1987
PBT	55,597	46,553	46,217	39,707
Tax	13,372	14,199	13,865	11,912
tax rate	24%	31%	30%	30%
PAT	42,225	32,354	32,352	27,795
y-o-y change	60%	-23%	0%	-14%
EPS	46.9	36.0	35.9	30.9
y-o-y change	61%	-23%	0%	-14%

Source: Sesa Goa, BofA Merrill Lynch Research estimates

Price objective basis & risk

Sesa Goa Limited (XSGAF)

Our PO of Rs195 is set at 0.9x NPV. We believe Sesa could trade at a discount to NPV due to volume risks and overhang related to volume headwinds from mining ban and regulatory uncertainties. Our NPV assumes a WACC of 12.5% and a terminal growth of 0%.

We forecast iron ore spot CFR prices of US\$159/t in FY12, US\$151/t in FY13e and US\$141/t in FY14e. We forecast volumes of 18.9mn tons in FY12e, 22.0mn tons in FY13e. Our forecasts assume further reserve upgrade and assume reserves of 333mn tons vs. 306mn tons of reserves as on March 11.

Downside risks to our valuation are potential mining/export curbs in Goa, lower iron ore prices due to lower-than-expected global steel output and ramp-up in Chinese mines output. Lower-than-expected volume growth and adverse regulatory policy changes including mining tax pose downside risks to our earnings and PO.

Upside risk are stronger iron ore prices, stronger volume growth, better visibility on volumes led by lifting of mining ban, additional mine approvals, export tax reversal and reserve accretion.

Link to Definitions

Basic Materials

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

Analyst Certification

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APR - Metals & Mining Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Banpu Pcl	BPULF	BANPU TB	Komsun Suksumrun
	Baosteel	BAOSF	600019 CH	Yongtao Shi
	China Coal Energy Ltd.	CCOZF	1898 HK	Yongtao Shi
	China Hongqiao	XCGQF	1378 HK	Bruce Wang
	China National Building Material Co Ltd.	CBUMF	3323 HK	Yongtao Shi
	China National Materials	XFCHF	1893 HK	Yongtao Shi
	China Resources Cement	CJRCF	1313 HK	Po Wei
	China Shanshui Cement	CCGLF	691 HK	Po Wei
	China Shenhua Energy Ltd.	CUAEF	1088 HK	Yongtao Shi
	CITIC Dameng Holdings Limited	XCDHF	1091 HK	Yongtao Shi
	Fushan International Energy	YULKF	639 HK	Yongtao Shi
	Hidili	XHILF	1393 HK	Yongtao Shi
	Hyundai Steel	XHDUF	004020 KS	Elli Lee
	Indo Tambangraya	PTIZF	ITMG IJ	Daisy Suryo
	Jiangxi Copper	JIAXF	358 HK	Yongtao Shi
	POSCO	PKXFF	005490 KS	Elli Lee
	POSCO -A	PKX	PKX US	Elli Lee
	PT Adaro Energy Tbk	PADEF	ADRO IJ	Daisy Suryo
	Sterlite Industries India Limited	XTNDF	STLT IN	Bhaskar N Basu, CFA
	Sterlite Industries India Limited	SLT	SLT US	Bhaskar N Basu, CFA
	Straits Asia Resources Limited	SSGDF	SAR SP	Daisy Suryo
	Winsway Coking Coal Holdings Limited	XWNYF	1733 HK	Yongtao Shi
	Yanzhou Coal	YZCHF	1171 HK	Yongtao Shi
	Zijin Mining Group Co Ltd.	ZIJMF	2899 HK	Timothy Bush
NEUTRAL				
	Aluminum Corp. of China	ALMMF	2600 HK	Bruce Wang
	Anhui Conch-H	AHCHF	914 HK	Yongtao Shi
	Borneo Lumbung Energy	PBTLF	BORN IJ	Daisy Suryo
	Coal India Limited	XOXCF	COAL IN	Bhaskar N Basu, CFA
	Hindalco	HNDFF	HNDL IN	Bhaskar N Basu, CFA
	Hyundai Hysco	HYUPF	010520 KS	Elli Lee
	Shougang Concord International	SCGEF	697 HK	Yongtao Shi
	Tambang Batubara	PBATF	PTBA IJ	Daisy Suryo
	Zhaojin Mining Industry Company Limited	ZHAOF	1818 HK	Timothy Bush
UNDERPERFORM				
	Angang Steel	ANGGF	347 HK	Yongtao Shi
	Bumi Resources	PBMRF	BUMI IJ	Daisy Suryo
	Dongkuk Steel	DKUSF	001230 KS	Elli Lee
	Intl Nickel In	PTNDF	INCO IJ	Daisy Suryo
	Jindal Steel and Power Limited	XJDLF	JSP IN	Bhaskar N Basu, CFA
	JSW Steel	XJWJF	JSTL IN	Bhaskar N Basu, CFA
	Maanshan Iron & Steel	MAANF	323 HK	Yongtao Shi
	NALCO	NAUDF	NACL IN	Bhaskar N Basu, CFA
	PT Bayan Resources Tbk	XBAYF	BYAN IJ	Daisy Suryo
	PT Indika Energy Tbk	XIDKF	INDY IJ	Daisy Suryo
	Sesa Goa Limited	XSGAF	SESA IN	Bhaskar N Basu, CFA
	Steel Authority of India	SLAUF	SAIL IN	Bhaskar N Basu, CFA
	Tata Steel	TAELF	TATA IN	Bhaskar N Basu, CFA
RVW				
	Aneka Tambang	XANEF	ANTM IJ	Daisy Suryo
	Medco Energi Itl	PTGIF	MEDC IJ	Daisy Suryo

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

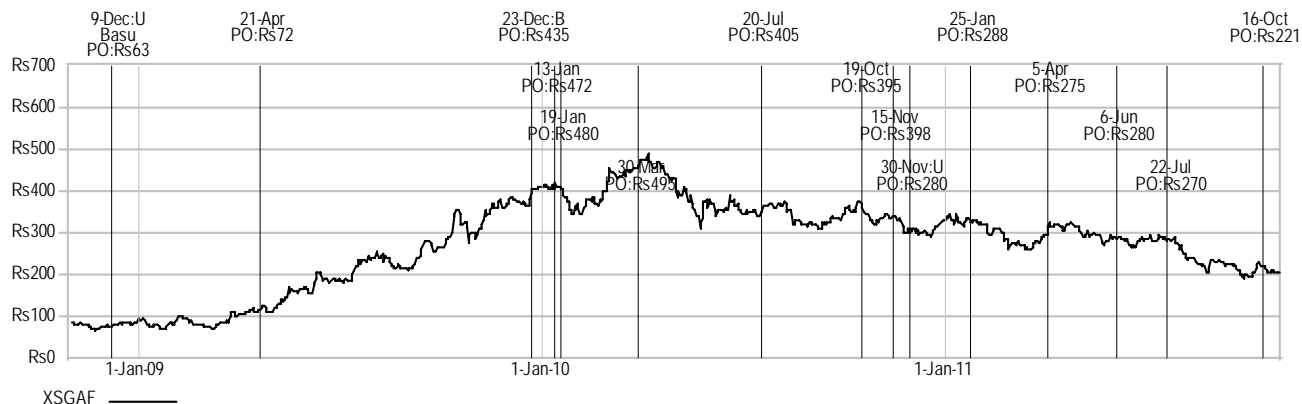
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XSGAF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	117	66.86%	Buy	41	39.42%
Neutral	33	18.86%	Neutral	12	38.71%
Sell	25	14.29%	Sell	2	9.09%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2073	54.13%	Buy	923	49.12%
Neutral	961	25.09%	Neutral	460	52.57%
Sell	796	20.78%	Sell	287	38.32%

* 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%

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