5 February 2008 | 12 pages

Punj Lloyd (PUJL.BO)

Buy: Down But Not Out

Target price change ☑
Estimate change ☑

- **Revising down our target price to Rs493** — We are reducing our target price to Rs493 (from Rs593 earlier) to factor in: 1) 18-20% earnings cut over FY08E-10E; 2) Cut in our target multiple to 23x (from 25x earlier); 3) Rolling forward our target P/E multiple to Dec09 (from Sep09 earlier); and 4) Value of Rs38 (Rs32 earlier) for real estate and other investments.

- **Earnings revised downwards** — We are cutting our FD EPS estimates by 18-20% to factor in 1) 10-16% slower growth in Punj sales; 2) 2-4% higher sales in Semb; 3) Reduction in Punj margins by 20-37 bps; and 4) Lower Semb margins by 200-330bps. Despite the earnings cut we expect Punj + Semb to grow EPS CAGR at 45% over FY07-10E with RoE at the 17-21% levels

- **Disappointing 3QFY08** — After a strong 1HFY08 PAT growth of 138% YoY, Punj Lloyd's 3QFY08 Recurring PAT at Rs613mn up 27% YoY was substantially lower than our estimates of Rs1.0bn on the back of losses on legacy projects in Semb E&C to the tune of Rs680mn. Reported PAT was higher at Rs917mn on the back of sale of investments to the tune of Rs371mn.

- **But maintain our Buy rating** — We see Punj as the only mid-cap Indian E&C company that can give L&T a run for its money. Punj Lloyd has taken more risks in terms of bidding in more countries and domains to ramp up its skill sets. Post a weak 3QFY08 we increase our target multiple discount to L&T to 23% and narrow the premium to 35% vis-à-vis other mid cap peers.

Buy/Low Risk	**1L**
Price (04 Feb 08)	Rs395.45
Target price	Rs493.00
from Rs593.00	
Expected share price return	24.7%
Expected dividend yield	0.1%
Expected total return	**24.7%**
Market Cap	Rs119,971M
	US$3,058M

Price Performance (RIC: PUJL.BO, BB: PUNJ IN)

Figure 1. Punj Lloyd – Statistical Abstract

Year to	Net Profit	FD EPS	EPS Growth	P/E	EV / EBITDA	ROE	Div. Yield	# Adj P/E	# Adj EV/EBITDA
31-Mar	(Rsmn)	(Rs)	(%)	(x)	(x)	(%)	(%)	(x)	(x)
FY05A	272	2.23	na	177.0	26.1	7.8%	0.0%	160.1	23.9
FY06A	545	1.93	-13.6%	204.9	56.6	6.7%	0.1%	185.4	51.4
FY07A	1,973	6.98	261.7%	56.6	29.5	16.4%	0.1%	51.2	26.8
FY08E	3,161	9.81	40.5%	40.3	21.0	17.0%	0.1%	36.5	19.1
FY09E	4,909	15.24	55.3%	26.0	14.4	18.4%	0.1%	23.5	13.2
FY10E	6,862	21.30	39.8%	18.6	10.7	21.1%	0.1%	16.8	9.9

Source: Citi Investment Research estimates # Adjusted for value of real estate and other investments

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

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

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

Atul Tiwari[1]
+91-22-6631-9866
atul.tiwari@citi.com

[1]Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	56.6	40.3	26.0	18.6
P/E reported (x)	nm	56.7	36.8	26.0	18.6
P/BV (x)	9.2	8.1	4.7	4.0	3.2
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	1.93	6.98	9.81	15.24	21.30
EPS reported	1.94	6.97	10.75	15.24	21.30
BVPS	42.95	48.95	83.52	99.99	123.17
NAVps ordinary	na	na	na	na	na
DPS	0.20	0.25	0.30	0.35	0.35
Profit & Loss (RsM)					
Net operating income (NOI)	**na**	**na**	**na**	**na**	**na**
G&A expenses	na	na	na	na	na
Other Operating items	na	na	na	na	na
EBIT including associates	**1,306**	**2,691**	**4,477**	**7,194**	**10,287**
Non-oper./net int./except.	-475	-35	341	-183	-485
Pre-tax profit	**831**	**2,656**	**4,818**	**7,011**	**9,802**
Tax	-291	-690	-1,354	-2,103	-2,941
Extraord./Min. Int./Pref. Div.	7	3	1	1	1
Reported net income	**547**	**1,969**	**3,465**	**4,909**	**6,862**
Adjusted earnings	545	1,973	3,161	4,909	6,862
Adjusted EBIT	1,298	2,682	4,477	7,194	10,287
Adjusted EBITDA	1,902	3,743	5,928	8,915	12,278
Growth Rates (%)					
NOI	na	na	na	na	na
EBIT adjusted	2.8	106.5	67.0	60.7	43.0
EPS adjusted	-13.6	261.7	40.5	55.3	39.8
Cash Flow (RsM)					
Operating cash flow	**-549**	**6,319**	**-1,912**	**1,717**	**2,051**
Depreciation/amortization	604	1,062	1,451	1,721	1,991
Net working capital	-1,680	3,536	-7,084	-4,912	-6,801
Investing cash flow	**-2,705**	**-8,498**	**-8,530**	**-5,500**	**-5,500**
Capital expenditure	-2,548	-7,215	-4,500	-4,500	-4,500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**3,953**	**11,032**	**8,038**	**1,881**	**3,381**
Borrowings	-1,622	11,427	0	2,000	3,500
Dividends paid	-60	-92	-102	-119	-119
Change in cash	**699**	**8,853**	**-2,403**	**-1,901**	**-68**
Balance Sheet (RsM)					
Total assets	**23,071**	**57,278**	**79,915**	**96,022**	**117,979**
Cash & cash equivalent	1,122	10,027	7,566	5,665	5,599
Net fixed assets	7,108	12,019	15,078	17,867	20,386
Total liabilities	**11,847**	**44,432**	**55,626**	**66,944**	**82,158**
Total Debt	5,566	16,994	16,995	18,996	22,497
Shareholders' funds	**11,224**	**12,847**	**24,292**	**29,082**	**35,826**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	7.7	5.2	5.8	7.3	8.3
ROE adjusted (%)	6.7	16.4	17.0	18.4	21.1
ROA adjusted (%)	2.7	4.9	4.6	5.6	6.4
Net debt to equity (%)	39.6	54.2	38.8	45.8	47.2
Interest coverage (x)	2.4	4.5	4.7	6.4	7.3

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

Powered by: dataCentral

Maintain Buy; New target price Rs493

We are lowering our target price to Rs493 (from Rs593 earlier) to factor in:

- 18 -20% downward revision in our FD EPS estimates
- Cut in our target P/E multiple to 23x (from 25x earlier) on the back of lower expected FY07-10E EPS CAGR of 45% vis-à-vis 55% earlier.
- Roll forward our target multiple to Dec09 from Sep09 earlier.
- Raising real estate and other investments value to Rs38 (from Rs32 earlier)

Figure 2. Punj Lloyd – Sum of the Parts

Part	Old Methodology	New Methodology	Rs/share
Punj + Semb	25x Sep09 FD EPS	23x Dec09 FD EPS	455
Real Estate and Other Investments	P/BV of 2.0x	P/BV of 2.3x	38
Target Price			**493**

Source: Citi Investment Research estimates

We maintain our Buy/Low Risk (1L) rating despite the unexpected Rs680mn write off in Semb on legacy orders as:

- We believe that Punj is perhaps the only mid-cap Indian construction company that can give L&T a run for its money.
- Punj Lloyd has taken more risks in terms of bidding in more countries and domains to ramp up its skill sets.
- In FY07 Punj Lloyd acquired Semb, which has helped it scale up its infrastructure expertise to upstream oil & gas, airports, jetties, MRT/LRT and tunnelling amongst others. Also, Punj Lloyd is now pre-qualified for larger and more complex project bids.
- Punj Lloyd's move up the value chain is reflected in the average size of the projects it has won increasing from US$30mn to US$100mn in FY07 (which could move up to US$200mn).
- However, post a weak 3QFY08 we increase our target multiple discount to L&T to 23% and narrow the premium to 35% vis-à-vis other mid cap peers.

Figure 3. India Engineering & Construction Comparables

		L&T	Punj Lloyd	HCC	Nagarjuna	Gammon	IVRCL
RIC Code		LART.BO	PUJL.BO	HCNS.BO	NGCN.BO	GAMM.BO	IVRC.BO
Recommendation		1L	1L	1L	1L	1L	1L
Value of BOT/Real Estate/Subsidiary		781	38	118	56	257	190
Price		3806	395	191	263	550	450
Mkt Cap US$mn		26,297	3,058	1,194	1,339	1,164	1,424
EPS	FY07A	47.32	6.98	2.74	6.25	11.34	10.48
EPS	FY08E	72.24	9.81	2.87	8.17	13.17	12.89
EPS	FY09E	101.06	15.24	4.67	13.08	18.70	19.96
EPS	FY10E	134.29	21.30	6.55	16.37	26.52	28.54
EPS CAGR (FY07-10E)		41.6%	45.0%	33.8%	37.9%	32.7%	39.6%
EPS CAGR (FY08-10E)		36.3%	47.4%	51.0%	41.5%	41.9%	48.8%
P/E	FY07A	80.4	56.6	69.8	42.1	48.5	42.9
P/E	FY08E	52.7	40.3	66.5	32.2	41.8	34.9
P/E	FY09E	37.7	26.0	40.9	20.1	29.4	22.6
P/E	FY10E	28.3	18.6	29.1	16.1	20.7	15.8
Adj. P/E	FY07A	63.9	51.2	26.6	33.2	25.8	24.8
Adj. P/E	FY08E	41.9	36.4	25.4	25.4	22.2	20.2
Adj. P/E	FY09E	29.9	23.5	15.6	15.8	15.7	13.0
Adj. P/E	FY10E	22.5	16.8	11.1	12.7	11.0	9.1
EV/EBITDA	FY07A	62.1	29.5	28.9	23.7	29.3	26.8
EV/EBITDA	FY08E	37.1	21.0	17.8	18.8	22.6	19.0
EV/EBITDA	FY09E	26.4	14.4	14.5	13.6	16.9	11.7
EV/EBITDA	FY10E	19.8	10.7	11.9	11.4	12.5	8.3
Adj. EV/EBITDA	FY07A	49.5	26.8	14.9	19.3	16.4	16.1
Adj. EV/EBITDA	FY08E	29.5	19.1	9.5	15.3	12.7	12.0
Adj. EV/EBITDA	FY09E	21.0	13.2	7.8	11.1	9.6	6.9
Adj. EV/EBITDA	FY10E	15.7	9.8	6.5	9.4	7.1	4.7
RoE	FY07A	26.8%	16%	8%	13%	11%	16%
RoE	FY08E	28.3%	17%	8%	15%	12%	12%
RoE	FY09E	28.1%	18%	12%	17%	15%	16%
RoE	FY10E	29.4%	21%	14%	17%	18%	20%

Source: Citi Investment Research estimates

Revising earnings downwards

We are cutting our FD EPS numbers by 18-20% over FY08E-10E to factor in:

- **Punj (ex Semb) sales –** Punj Lloyd's order backlog though robust at Rs98 is down 13% YoY. As a consequence we have toned down our growth expectation of Punj (ex Semb) sales by 10% - 16% over FY08E-10E
- **Semb sales –** Better-than-expected growth in 9mFY08 and order backlog up 35% YoY to Rs62bn leads us to raise sales by 2-4% over FY09E-FY10E
- **Punj EBITDA margins –** We have marginally toned down EBITDA margins by 20-37 bps over FY08E-09E, as according to management incremental orders are being bid at 11-13% margins (which includes other income)
- **Semb EBITDA margins –** The unexpected Rs680mn write-off in Semb has forced us to reduce EBITDA margins in FY08E by 330bps. Further, given that the Semb order backlog has Rs10.4bn of legacy orders which will get executed over the next 6-9 months we have cut FY09E margins by 250bps. In the interest of conservatism we have also cut FY10E margins by 200bps.

We now expect Punj + Semb to grow at an EPS CAGR of 45% over FY07-FY10E vis-à-vis the earlier 55% with RoE at the 17 – 21% levels.

Figure 4. Punj + Semb Earnings Revision

Mar31 (Rsmn)	FY08E	FY09E	FY10E
PLL (ex Semb) Sales			
Old	55,000	74,250	100,238
New	49,608	64,490	83,837
% Chg	-9.8%	-13.1%	-16.4%
Semb Sales			
Old	28,000	32,900	38,658
New	28,000	33,600	40,320
% Chg	0.0%	2.1%	4.3%
PLL (ex Semb) EBITDA Margin %			
Old	12.2%	12.2%	12.0%
New	11.8%	12.0%	12.0%
% Chg	(37)	(20)	0
Semb EBITDA Margin %			
Old	3.5%	6.0%	7.5%
New	0.2%	3.5%	5.5%
% Chg	(330)	(250)	(200)
Recurring PAT			
Old	3,904	6,049	8,375
New	3,161	4,909	6,862
% Chg	-19.1%	-18.9%	-18.1%
FD EPS			
Old	12.12	18.78	26.00
New	9.81	15.24	21.30
% Chg	-19.1%	-18.9%	-18.1%

Source: Citi Investment Research estimates

Disappointing 3QFY08 – Below CIR estimates

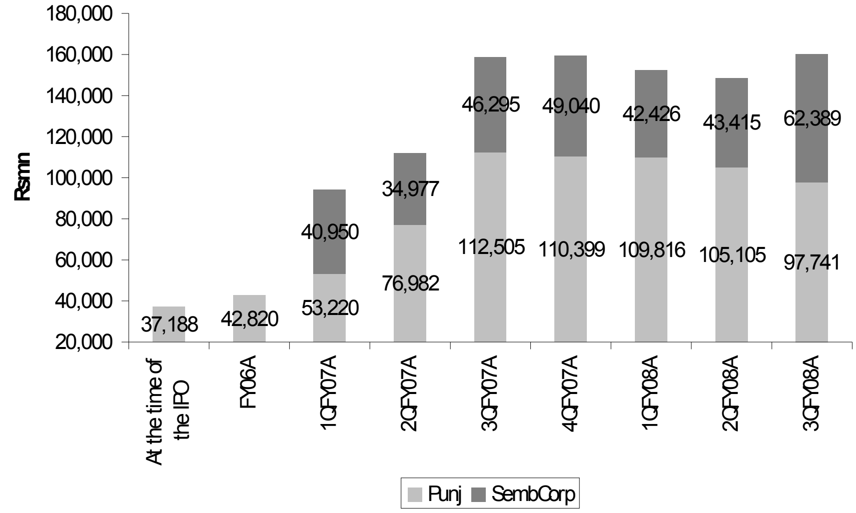
- Punj Lloyd's 3QFY08 Recurring PAT at Rs613mn up 27% YoY was much lower than CIR estimates of Rs1.0bn on the back of losses on legacy projects in Semb E&C to the tune of Rs680mn. Reported PAT was higher at Rs917mn on the back of sale of investments to the tune of Rs371mn.
- In 3QFY08 Semb E&C substantially completed certain low margin legacy orders with cost overruns due to delays and design changes that led to booking losses to the tune of Rs680mn. The company indicated it has been conservative and provided for the entire amount of losses on these orders.
- The company is negotiating to recover cost overruns and expects to make some recoveries. However, the key question remains, "Are there are more such legacy orders in Semb E&C's Rs62bn order backlog that could have similar huge potential losses?"
- The Punj + Semb combine ended 3QFY08 with an order backlog of Rs160bn up a tepid 12% YoY. Though the Semb backlog at Rs62bn is up 35% YoY, Punj backlog at Rs98bn down 13% YoY is a concern given that the margins are higher on the Punj orders than on the Semb orders.

Figure 5. Punj Lloyd – Consolidated 3QFY08 Results

	3QFY07	3QFY08E	% Change
Net Sales	**14,333**	**21,170**	**47.7%**
Growth			
Raw Material + Subcontracting %	60.9%	67.8%	
Consumption of Raw materials	(5,123)	(7,614)	
as a % of sales	35.7%	36.0%	
Contractor Charges	(3,610)	(6,747)	
as a % of sales	25.2%	31.9%	
Staff Costs	(1,954)	(2,392)	
as a % of sales	13.6%	11.3%	
Other expenditure	(2,816)	(3,373)	
as a % of sales	19.6%	15.9%	
Total Expenditure	(13,502)	(20,126)	
as a % of sales	94.2%	95.1%	
EBITDA	**831**	**1,045**	**25.7%**
EBITDA Margin	**5.8%**	**4.9%**	
Depreciation	(296)	(365)	
EBIT	**535**	**679**	
EBIT Margin	**3.7%**	**3.2%**	
Interest	(279)	(284)	
Other Income	302	459	
PBT	557	854	
Tax	(80)	(241)	
Tax Rate %	14%	28%	
Share of Profit of Associates	0	0	
Share of loss transferred to Minority	5	0	
Recurring PAT	**483**	**613**	**26.9%**
Extraordinary items	0	371	
Tax Adjustment @ 18%	0	(67)	
Reported PAT	**483**	**917**	**90.0%**

Source: Citi Investment Research estimates

Figure 6. Punj + Semb – QoQ Order Backlog



Source: Citi Investment Research

Punj Lloyd

Company description

Punj Lloyd is an Indian Engineering & Construction (E&C) major catering to the hydrocarbons and civil construction sectors across India, Asia and the Middle East. Its services include laying pipelines, building roads, and constructing refineries and tankages, power plants, and other infrastructure facilities. In FY07 Punj Lloyd acquired Semb, which helped it scale up its expertise to upstream oil & gas, airports, jetties, MRT/LRT and tunnelling amongst others, in the infrastructure domain. Enabled by the extended capabilities accruing from this acquisition, Punj Lloyd is now also pre-qualified for larger and more complex project bids.

Investment strategy

We rate Punj Lloyd shares Buy/Low Risk (1L) as: 1) We always believed that Punj could be the only mid-cap Indian construction company to give L&T a run for its money. 2) Punj Lloyd has taken more risks in terms of bidding in more countries and domains to ramp up its skill sets. At the end of FY07 Punj Lloyd had the third-largest order backlog of Rs149bn after BHEL and L&T. 3) In FY07 Punj Lloyd acquired Semb, which has helped it scale up its infrastructure expertise to upstream oil & gas, airports, jetties, MRT/LRT and tunnelling amongst others. Also, Punj Lloyd is now pre-qualified for larger and more complex project bids. 4) Punj Lloyd's move up the value chain is reflected in the average size of the projects it has won increasing from US$30mn to US$100mn in FY07 (which could move up to US$200mn).

Valuation

Our target price of Rs493 is based on a target P/E multiple of 23x Dec09 for Semb + Punj, which is well supported by earnings CAGR of 45% over FY07-10E and RoEs expanding from 17% in FY08E to 21% in FY10E. Our target multiple is at a 23% discount to that of L&T. Despite Punj Lloyd's superior earnings CAGR of 45% over FY07-10E vis-à-vis that of 42% for L&T, we believe Punj Lloyd should trade at a discount to L&T given L&T's superior order backlog, RoEs and execution capabilities. Further, we also value Punj Lloyd investments in a shipyard and a real estate JV at a P/BV of 2.3x

Risks

We rate Punj Lloyd shares Low Risk, which differs from the Medium Risk rating suggested by our quantitative risk rating system but is in line with other construction companies given the company's 3QFY08 ending order book of Rs149bn implying sales coverage of 1.7x FY08E sales, providing visibility over the next two years, in our view. The key downside risks that could impede the stock from reaching our target price include: 1) Integration risks relating SembCorp E&C; 2) Revenue volatility due to project-driven nature of business; 3) Exports – subject to geopolitical risks; 4) Project implementation risks, bad debts and receivables; 5) Sensitivity to raw material costs and foreign currency fluctuations; and 6) Employee retention could be a key challenge.

Appendix A-1

Analyst Certification

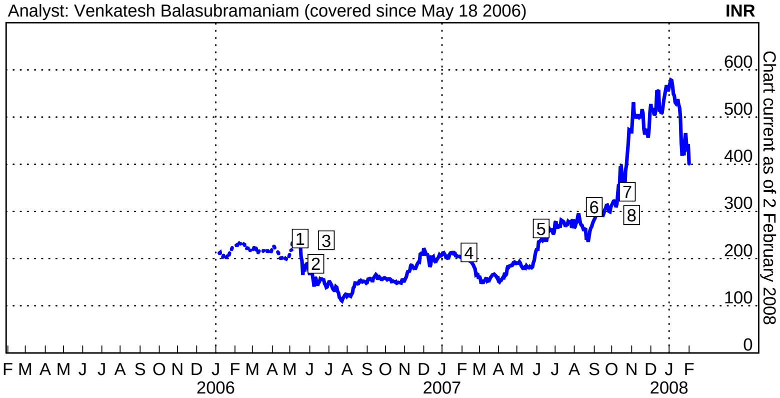
Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed by that research analyst, strategist or research associate in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s), strategist(s) or research associate(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, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Punj Lloyd (PUJL.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Venkatesh Balasubramaniam (covered since May 18 2006)



Covered
Not covered

Rating/target price changes above reflect Eastern Standard Time

#	Date	Rating	Target Price	Closing Price
1:	17 May 06	3M	212.00	233.76
2:	12 Jun 06	*1M	*228.60	158.08
3:	28 Jun 06	1M	228.60	138.99
4:	13 Feb 07	*3M	*175.40	197.13
5:	8 Jun 07	*1L	*305.00	239.60
6:	3 Sep 07	1L	*353.00	282.70
7:	25 Oct 07	1L	*464.00	420.95
8:	1 Nov 07	1L	*593.00	468.85

*Indicates change.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Nagarjuna Construction. This position reflects information available as of the prior business day.

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 Bharat Heavy and Punj Lloyd.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Bharat Heavy, IVRCL Infra & Projects, Larsen & Toubro and Punj Lloyd.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Bharat Heavy.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Bharat Heavy, Gammon India, Hindustan Construction, IVRCL Infra & Projects, Larsen & Toubro, Nagarjuna Construction and Punj Lloyd in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): Bharat Heavy, IVRCL Infra & Projects, Larsen & Toubro and Punj Lloyd.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Bharat Heavy, Gammon India, Hindustan Construction, Larsen & Toubro and Punj Lloyd.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Bharat Heavy, Gammon India, Hindustan Construction, IVRCL Infra & Projects, Larsen & Toubro, Nagarjuna Construction and Punj Lloyd.

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 31 December 2007	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage (3421)	50%	37%	12%
% of companies in each rating category that are investment banking clients	52%	53%	40%

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 (relative to the performance of relevant Citi bond indices), 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); 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 Citigroup bond market sector index. Performance data for Citi bond indices are updated monthly, are available upon request and can also be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 04 February 2008 03:56 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 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. 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, which 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 Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. 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 Taiwan through Citigroup Global Markets Inc. (Taipei Branch), 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 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.