

UBS Investment Research
India Daily Comment

25 January 2011

<http://www.ubs.com/investmentresearch>
Global Strategy
Equity Strategy Niall MacLeod p.1

Asia Equity Strategy - Anomalies from the rise in commodities

Company Update
ICICI Bank, ICBK.BO Vishal Goyal, CFA p.53

A good quarter

12-month rating: Buy (Unchanged), FY11E Rs46.11=>Rs46.84, FY12E

Rs61.21=>Rs59.03, PT Rs1,400.00/US\$61.44, Mkt Cap Rs1,208bn/US\$25.6bn

Sesa, SESA.BO Navin Gupta, CFA p.64

Q3FY11 results above UBS estimates

12-month rating: Unchanged => Buy, FY11E Rs43.34, FY12E Rs44.48, PT Prior:

Rs400.00/US\$8.77 => Rs410.00/US\$8.99, Mkt Cap Rs274bn/US\$6.01bn

Idea, IDEA.BO Suresh A Mahadevan, CFA p.70

3Q11: Impressive minutes growth

12-month rating: Buy (Unchanged), FY11E Rs2.01, FY12E Rs2.00, PT

Rs105.00/US\$2.30, Mkt Cap Rs226bn/US\$4.97bn

Asian Paints Ltd., ASPN.BO Sunita Sachdev p.76

Q3 FY11 review

12-month rating: Buy (Unchanged), FY11E Rs96.00, FY12E Rs117.14, PT

Rs3,500.00/US\$76.80, Mkt Cap Rs252bn/US\$5.52bn

GCPL, GOCP.BO Sunita Sachdev p.82

Conference call takeaways

12-month rating: Sell (Unchanged), FY11E Rs16.10, FY12E Rs18.58, PT

Rs415.00/US\$9.11, Mkt Cap Rs130bn/US\$2.85bn

Welspun Corp, WGSR.BO Ruchi Vora p.88

Lower shipments; Q4FY11 to improve

12-month rating: Buy (Unchanged), FY11E Rs32.25, FY12E Rs35.88, PT

Rs250.00/US\$5.48, Mkt Cap Rs33.1bn/US\$0.72bn

Industry Update
Oil Companies, Major Peter Gastreich p.94

Asia Oil Explorer - Asia refining margins reach 22-month high

This package has been prepared by UBS Securities India Private Ltd

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UBS Investment Research

Asia Equity Strategy

Anomalies from the rise in commodities

25 January 2011

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■ Inflation still the principal concern

Inflation remains the core question in all our meetings at the moment. This note takes a look at the theme behind the theme: the spike in commodities – how much of an impact do they really have on Asian equities at the market and stock level?

■ Market level: limited absolute impact. Relative impact is higher

Over the last ten years, the correlation of commodities with Asian equities has risen and is now positive. Asian equities go up along with commodity prices. But the relative performance impact is more nuanced – unsurprisingly, Asia ex Japan equities tend to lag the commodity equity markets (e.g. other EM) in times of rising commodities.

■ Hunting for the anomalies – what stocks are moving the ‘wrong way’?

We look at 7 commodities and their impact on costs and pass-through for 480 stocks in Asia ex Japan with the help of our research colleagues. We have screened for anomalies in this list: stocks that are impacted by commodities (negative or positive) yet this does not appear to be reflected in recent share price moves, margin forecasts or valuations.

■ Attractive: Shenhua, PetroChina; Vulnerable: EVA Air, Giordano, L&F

Shenhua - H is the only stock that shows up in all of our screens (price moves, margins and valuation) as attractive. EVA Air and Giordano look vulnerable as stocks that may be negatively affected by the higher commodity prices which seem not to be reflected in the market – either in recent share price moves, margin forecasts or valuation. The full list is on page 47.

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Stocks that are exposed to higher commodity prices, and show up as anomalies in two or more of our screens

Negatively Impacted	Expensive	High Margins	Outperformed	Total Score	Positively Impacted	Cheap	Low Margins	Underperformed	Total Score
China National Mats.'H'	0	1	1	2	Shenhua En.Co.'H'	1	1	1	3
Eva Air	1	0	1	2	China Coal Energy	1	0	1	2
Giordano Intl.	0	1	1	2	Petrochina	1	0	1	2
Hankook Tire	0	1	1	2					
Hyundai Steel	1	1	0	2					
Kia Motors	1	1	0	2					
Li & Fung	0	1	1	2					
Luzhou Lao Jiao 'A'	0	1	1	2					
Sany Heavy Industry	1	0	1	2					
Sinoma Intl.Engr.'A'	0	1	1	2					
Tata Motors Ltd.	1	0	1	2					
Thai Union Frozen Prds.	0	1	1	2					
Tsingtao Brewery 'H'	1	1	0	2					

Source: UBS estimates

In virtually every meeting with clients since mid December, inflation has been the central issue. This is something that we've been writing about extensively (be it in the context of India/Indonesia, or markets in general) for a while now, along with our economists. As a quick reminder, our economists think that inflation is likely to moderate cyclically, which should reduce some of the pressure for aggressive monetary tightening in Asia ex Japan. Structurally, however, they believe that inflation will keep moving higher due to loose monetary policy. This has been part of our monetary theme for the last two years, which we see as being positive for real assets, consumption, and the credit cycle. Positive, however, until the monetary brakes are slammed on. We still do not see that as being a 2011 story.

While monetary fears are certainly fuelling the inflation debate, in practice much of the current rise is down to the move in commodity prices. That's the feature of this note: the impact these have on a) Asian equities over time and b) looking to where the risks (positive and negative) lie at the stock level, and specifically trying to identify where these are and are not 'priced-in'.

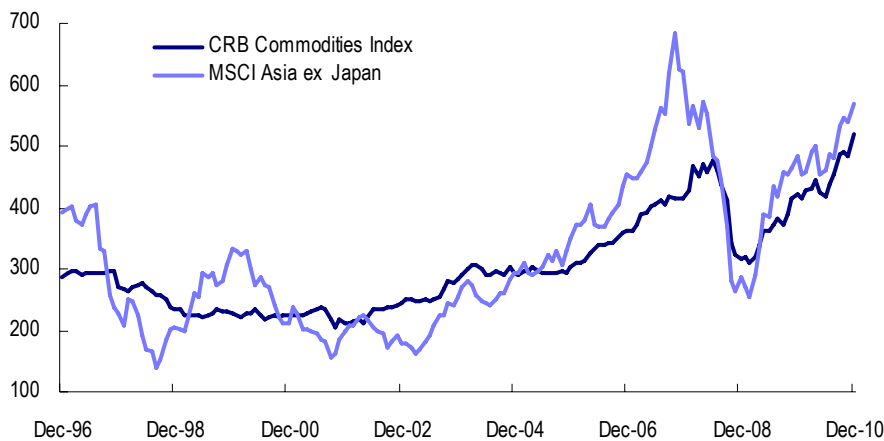
Our conclusions are that A) for sure, Asia in a relative sense tends to underperform when commodity prices are rising. On the basis of our economist and commodity strategy forecasts, we expect stabilisation in commodity prices, which should take away some headwinds to Asian equity performance. B) A few stocks appear to us to be anomalies from this exercise. Amongst the beneficiaries of higher commodity prices, China Shenhua and PetroChina look attractive. Amongst stocks that are negatively affected, EVA Air, Giordano and Li & Fung look vulnerable.

Commodity Inflation – One big 'correlated trade'

Over the recent weeks, rising commodity prices have once again become a focal point of attention amongst Asia ex Japan investors. The CRB index, which tracks the spot price for a basket of commodities, has risen past its previous peak in 2008, and higher commodity prices have fed fears that this could add inflationary pressure in Asia. Beyond this inflationary pressure, do rising commodities hurt or help Asian equities?

Looking at a simple chart of the CRB index along with Asia ex Japan equities, the relationship appears in recent years to be positive: higher commodities are associated with better Asian equity markets.

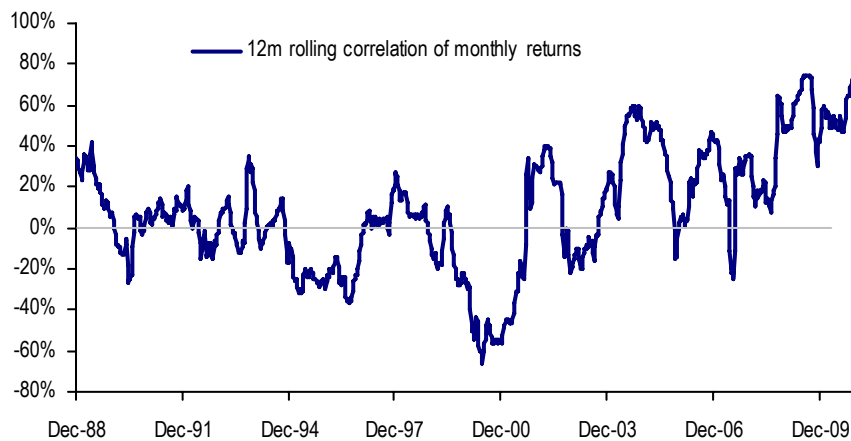
Chart 1: CRB commodities index



Source: Bloomberg, Commodities Research Bureau

This has not always been the case: indeed for most of the 1990s, the performance of commodity markets and Asian equities was inversely correlated as chart 2 shows. More generally the inverse relationship between commodities and equities was one of the arguments that were made 10 years back for investors to buy commodities in their own right. How times have changed. Given the positive correlation that exists today, the prima facie evidence seems to be that one rising is not bad for the other. Or, we shouldn't worry too much about rising commodity prices per se, it signifies growth, which is good for the other.

Chart 2: Correlation of monthly returns for MSCI Asia ex Japan and CRB Commodities Index

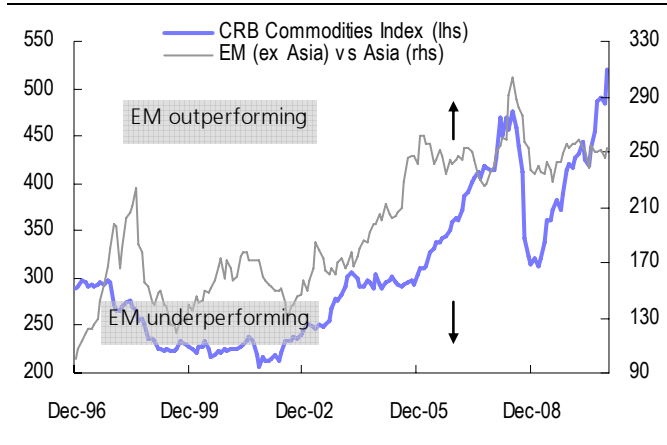


Source: Datastream; Bloomberg

This is absolute performance. The relative case for Asia is less appealing as a commodity importer. Chart 3 shows the relative performance of Asia ex Japan to EMEA and Latin America, along with the CRB index. The charts make clear a relationship that most of us implicitly accept – that we as commodity importers relatively suffer compared to producers (these indices are dominated respectively by Russia and Brazil) when commodity prices are rising. Chart 4 shows the performance of Asia ex Japan relative to the developed world along

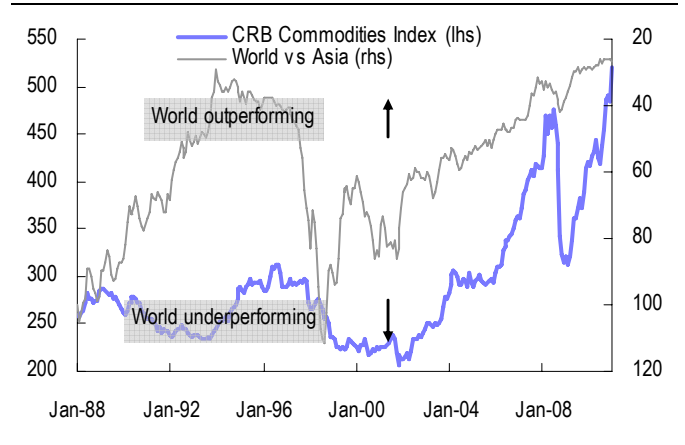
with the CRB index. Similar to the underperformance against EM, Asia tends to underperform the rest of the world as well in periods with rising commodity prices.

Chart 3: Performance - Asia relative to EM and CRB Commodities Index



Source: Datastream; Bloomberg

Chart 4: Performance - Asia relative to Rest of World and CRB Commodities Index



Source: Datastream; Bloomberg

The bottom line is that rising commodity prices are not great for Asia ex Japan in relative terms, and this has clearly compounded our underperformance in recent weeks, both relative to other emerging markets, but also to the world index. Both our economists and commodity experts expect upside in commodity prices at least in the first half of the year and think that policy responses could be critical to commodity and materials prospects in 2011. However, our analysts expect oil price to be range bound in the \$70-\$90 range in 2011 which should provide some relief to the recent headwinds, especially for food.

Moving beyond the macro and into the micro, what about the impact of certain ‘soaring’ commodity prices on individual stocks? After all, when we look at costs in Asia, commodities figure significantly. Table 1 shows data that we compiled around mid-2009, showing the cost breakdown where available for companies in different countries. While labour is a significant cost in Hong Kong and Singapore’s service economies (along with property costs) in others, particularly the more manufacturing economies, input costs like commodities figure more heavily.

Table 1: Breakdown of Costs

Country	Energy	Labour	Raw Materials	Rent/Land	Others
China	11.2%	14.2%	21.5%	5.5%	47.5%
Hong Kong	6.4%	28.4%	18.1%	11.1%	36.0%
Indonesia	13.0%	17.0%	23.7%	4.1%	42.1%
India	13.7%	17.4%	24.6%	1.2%	43.1%
Korea	10.9%	17.2%	16.1%	0.8%	54.9%
Malaysia	14.1%	16.8%	15.9%	3.0%	50.1%
Philippines	20.8%	15.2%	8.7%	12.0%	43.3%
Singapore	15.0%	31.0%	6.5%	13.3%	34.2%
Thailand	22.7%	21.3%	12.5%	5.9%	37.7%
Taiwan	10.1%	12.6%	23.4%	6.7%	47.2%
Aggregate	11.9%	16.0%	20.1%	4.9%	46.9%

Source: UBS Estimates

For the rest of the note we take a detailed look, with the help of our colleagues in research, to identify the potential gainers and sufferers from rising commodity prices. What we are most interested in are anomalies: stocks that are positively affected and yet have underperformed, or consensus forecast margins that have yet to reflect higher costs.

This note is divided into three parts. First, we look at the price changes by individual commodities and highlight some of the sectors and UBS-covered stocks that are affected. Second, we run screens to look for outliers based on share price moves, consensus forecast margins versus historical average margins, and valuations. What we are most interested in are anomalies: stocks that are positively affected and yet have underperformed, or consensus forecast margins that have yet to reflect higher costs. Third, we present the detailed comments we collected from our analysts on individual stocks in the Appendix

A few stocks stand out. Amongst the potential beneficiaries of higher commodity prices, China Shenhua - H shows up as attractive in all three of our screens. It is one of the worst performers amongst likely beneficiaries of higher coal prices, its forecast margins are below the trough levels back in 2005-10, and its market-relative PB is below its historical average. PetroChina also looks to be attractive as an underperformer with low margins for the H shares. We show the full list in Table 2.

Table 2: Stocks that are likely beneficiaries of higher commodity prices, and show up as anomalies in two or more of our screens

	Positively Impacted and Cheap	Positively Impacted and Low Margins	Positively Impacted and Underperformed	Total Score
China Shenhua En.Co.'H'	1	1	1	3
China Coal Energy	1	0	1	2
Petrochina	1	0	1	2

Source: UBS estimates

Amongst the stocks that could be negatively affected by higher commodity prices, there aren't any stocks that show up as anomalies in all three screens but a number of them show up in two screens. EVA Air and Giordano, to our minds, look the most vulnerable. Both have performed well in the last 6 months. The average consensus forecast margin for Giordano in 2011-12 is above the peak it achieved in 2005-10; for EVA, above the peak during that period except 2010. On a market-relative price-to-book basis, EVA is trading at more than 2x above its historical average. Both stocks are rated Neutral by our analysts (Erica Poon Werkun for Giordano and Eric Lin for EVA Air).

Top down, Li & Fung looks to be another candidate for potential disappointment. As a sourcing agent, it is not directly affected by higher commodities price but its customers and manufacturers are likely to face margin pressure. Some US and European clothing and textiles retailers have warned that higher cotton prices could lead to lower margins for that. We think it unlikely that Li & Fung will be immune to the pressure. Spencer Leung, our analyst, has a high conviction Sell call on the stock.

Table 3: Stocks that are likely beneficiaries of higher commodity prices, and show up as anomalies in two or more of our screens

	Negatively Impacted and Expensive	Negatively Impacted and High Margins	Negatively Impacted and Outperformed	Total Score
China National Mats.'H'	0	1	1	2
Eva Air	1	0	1	2
Giordano Intl.	0	1	1	2
Hankook Tire	0	1	1	2
Hyundai Steel	1	1	0	2
Kia Motors	1	1	0	2
Li & Fung	0	1	1	2
Luzhou Lao Jiao 'A'	0	1	1	2
Sany Heavy Industry	1	0	1	2
Sinoma Intl.Engr.'A'	0	1	1	2
Tata Motors Ltd.	1	0	1	2
Thai Union Frozen Prds.	0	1	1	2
Tsingtao Brewery 'H'	1	1	0	2

Source: UBS estimates

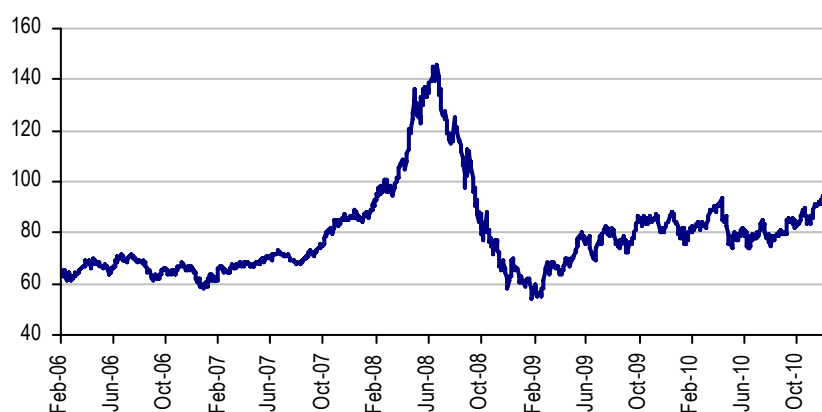
Stock impact by commodity

Oil

The oil price is arguably the most important commodity-related driver of the CPI in Asia ex Japan, due to its direct impact on energy and fuel prices as well as the knock-on impact on food. The impact is particularly pronounced for lower-income countries: food, fuel and utilities together account for over 50% of the CPI basket in the Philippines and India, and 40% in Indonesia and China.

Stronger economic data out of the US over the past 6 months has coincided with an acceleration in the increase in the oil price, which is approaching levels that were not seen before the spike in H1 2008. Jon Rigby, our global sector strategist, believes that the oil price should average at around US\$85 per barrel in 2011E and 2012E, as it reflects the price at which the industry can make sufficient economic return to develop the required capacity

Chart 5: Brent crude oil price (US\$/barrel)



Price change

Last 3 months: +17%

6 months: +26%

12 months: +16%

Source: Bloomberg

The sectors that are the most positively affected by the oil price in Asia ex Japan include the upstream oil producers and to a lesser degree the downstream refineries and chemical producers. The product prices for the latter group are correlated with the oil price though their margins depend on industry-specific supply and demand. The key sectors that are considered negatively affected include Utilities (if there is no pass-through) and Transport.

Table 4: Stock clusters in Asia ex Japan affected by higher oil prices

	Positive impact	Negative impact
Direct	Energy	Transport
	Chemicals & refining (depends on pricing power)	Chemicals & refining (depends on pricing power)
		Utilities
Indirect	Agriculture (food prices are correlated with oil)	Agriculture (higher fertiliser prices)
	Oil drilling equipment suppliers	Manufacturing (e.g. footwear)

Source: UBS estimates

We list all the stocks under UBS coverage that are directly and indirectly affected by the oil price, our analysts' estimates of the impact, as well as their company-specific comments in Table 5.

Oil companies as a group are beneficiaries but the company-specific impact is dependent on the market in which the companies operate. According to Peter Gastreich, our Head of Asia Oil & Gas Research, CNOOC's EPS should go up by 14%, and PetroChina's by 10% for every US\$10/barrel change in the oil price. For the Indian oil companies, on the other hand, our analyst Prakash Joshi believes that higher oil prices should have neutral and negative impact on most companies, as they have downstream operations and the higher costs are difficult to pass through.

John Chung, our analyst for the regional refining and chemicals companies, believes that industry margin is near a bottom, and as the supply and demand picture normalises the industry should gain pricing power. As a result, he believes higher oil prices should positively affect his sector with higher product prices.

A somewhat less direct beneficiary of the higher oil price are likely to be palm oil producers in the region. Crude palm oil (CPO) prices historically trade in line with the oil price, and the CPO plantation stocks have been amongst the best performers in Asia recently. Whilst Alain Lai, our analyst, is bullish on the plantation stocks due to structural constraints in finding more land for new plantations, he has cautioned that CPO is now trading near the top end of its range versus the oil price so there could be near-term risk of mean reversion.

Transport companies represent the biggest group that is negatively affected by higher oil prices. For airlines and shipping companies, there is partial pass-through and pricing power is dependent on demand, which also tends to correlate with the oil price. At the moment, demand is strong so they should have some abilities to pass through the cost increases, according to Richard Wei and Eric Lin, our analysts. The Chinese rail companies are also affected, to a lesser degree, although their tariffs are fixed by the government and hence there is no pass-through to customers.

The other major group of stocks that are negatively affected are consumer companies that use oil or oil-derived products as inputs, such as Li Ning and Hengan. According to our analyst, Spencer Leung, oil and cotton together account for around 20% of the input cost for the Chinese sportswear brands (Li Ning, Anta, Xtep) and pulp and oil together account for 45% of the cost for Hengan. Whilst there is some pass-through in these costs, higher commodity prices look clear headwinds.

Table 5: Stocks likely to be impacted by Oil under UBS coverage

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
<i>Positive impact</i>											
PetroChina	China	Energy	247.64	12.32	NA	Peter Gastreich	Buy	Oil			\$10/bbl change in oil price would roughly change PetroChina EPS by 10%
China National Offshore Oil Corporation	China	Energy	108.47	13.63	3.61	Peter Gastreich	Neutral	Oil			\$10/bbl change in oil price would roughly change CNOOC EPS by 14%
Formosa Petrochemical Corporation	Taiwan	Energy	28.64	23.33	3.75	John Chung; Peter Gastreich; Wei Yu	Neutral	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.
Formosa Plastics	Taiwan	Materials	19.54	12.17	2.28	John Chung; Peter Gastreich; Wei Yu	Buy	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.
Nan Ya Plastics	Taiwan	Materials	18.53	13.22	1.99	John Chung; Peter Gastreich; Wei Yu	Buy	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.
Formosa Chemicals & Fibre	Taiwan	Materials	17.57	11.72	2.01	John Chung; Peter Gastreich; Wei Yu	Buy	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.
SK Energy	Korea	Energy	16.27	10.57	1.71	John Chung; Peter Gastreich; Wei Yu	Buy	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.
China Oilfield Services - A	China	Energy	15.57	22.88	3.45	Peter Gastreich	Neutral	Oil			Indirect impact. High oil prices encourage more exploration and development of oil reserves, which would benefit oil services companies like COSL.
Keppel Corporation	Sing	Industrials	14.35	14.93	2.71	Cheryl Lee, CFA	Buy	Oil			Higher oil prices have an indirect positive impact to the company, as 60% of its revenue is driven by construction of offshore oil & gas platforms. Interest in capital investment in these platforms is helped by a firm medium-term oil price outlook.
Cairn India Limited	India	Energy	14.33	7.42	1.49	Prakash Joshi	Neutral	Oil		Yes	Upstream company: Positively impacted by high oil prices, does not pay any subsidy
IOI Corporation	Malay	Consumer Staples	12.47	14.71	3.08	Alain Lai	Buy	Palm oil (correlated with oil)			8% increase in EPS per US\$100/tonne change in the crude palm oil price
S-Oil	Korea	Energy	9.57	13.58	2.23	John Chung; Peter Gastreich; Wei Yu	Buy	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
China Oilfield Services	China	Energy	9.42	17.16	2.59	Peter Gastreich	Neutral	Oil			Indirect impact. High oil prices encourage more exploration and development of oil reserves, which would benefit oil services companies like COSL
KL Kepong	Malay	Consumer Staples	7.76	13.95	3.57	Alain Lai	Buy	Palm oil (correlated with oil)			10% increase in EPS per US\$100/tonne change in the crude palm oil price
Golden Agri-Resources	Sing	Consumer Staples	7.39	14.14	1.44	Alain Lai	Buy	Palm oil (correlated with oil)			15% increase in EPS per US\$100/tonne change in the crude palm oil price
PTT Chemical	Thailand	Materials	7.11	12.44	1.85	John Chung; Peter Gastreich	Neutral	Oil	50%	Yes	Natural gas based chemicals producer so indirectly benefits from oil price hike
SembCorp Industries Ltd	Sing	Industrials	7.11	14.02	2.25	Cheryl Lee, CFA	Buy	Oil			Owens a 61% stake in Sembcorp Marine, which indirectly benefits from higher oil prices via more offshore drilling.
Thai Oil	Thailand	Energy	4.88	12.45	1.90	Piyanan Panichkul; John Chung	Buy	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.
Astra Agro Lestari	Indo	Consumer Staples	4.34	9.93	3.32	Bonny Setiawan	Buy	Fertiliser, Palm oil (correlated with oil)	40% (fertilisers)		The company is negatively affected by higher fertiliser prices, which are correlated with the oil price and account for 40% of cost. However, its end product, crude palm oil and other agricultural commodities, are also correlated with the oil price so the net effect should be positive
PTT Aromatics and Refining	Thailand	Energy	3.49	21.21	1.80	Piyanan Panichkul; John Chung; Peter Gastreich	Neutral	Oil	80%	Yes	Both raw material and product prices are correlated with the oil price. The profit margin depends on industry supply and demand.
Indofood Agri Resources	Sing	Consumer Staples	3.15	11.70	2.03	Alain Lai	Buy	Palm oil (correlated with oil)			12% increase in EPS per US\$100/tonne change in the crude palm oil price
London Sumatra Indonesia	Indo	Consumer Staples	2.17	9.92	2.32	Bonny Setiawan	Buy	Fertiliser, Crude palm (correlated with oil)	40% (fertilisers)		The company is negatively affected by higher fertiliser prices, which are correlated with the oil price and account for 40% of cost. However, its end product, crude palm oil and other agricultural commodities, are also correlated with the oil price so the net effect should be positive
Medco Energi Internasional	Indo	Energy	1.07			Sebastian Tobing, CFA	Buy	Oil			As an oil and gas E&P company, it benefits if oil price rises
Energi Mega Persada	Indo	Energy	0.19	8.89	422.03	Sebastian Tobing, CFA	Suspended	Oil			
Neutral impact											
Reliance Industries	India	Energy	75.14	14.67	NA	Prakash Joshi; Ruchi Patwari	Neutral	Oil		Yes	Refining and Petrochemicals. Neutral- impacted by refining and petrochemical margins

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
Oil & Natural Gas Corporation	India	Energy	56.32	10.49	NA	Prakash Joshi; Ruchi Patwari	Buy	Oil		Partial	Upstream company. Neutral- higher oil prices offset by higher subsidy payout. Impact depends on whether the Govt allows retailers to hike refining product prices.
Essar Oil	India	Energy	3.95	24.12	2.82	Prakash Joshi	Buy	Oil		Yes	Refining. Neutral- impacted by refining and petrochemical margins
<i>Negative impact</i>											
Indian Oil Corp.	India	Energy	17.20	8.67	NA	Prakash Joshi; Ruchi Patwari	Neutral	Oil		Partial	Refining and marketing company: Indirect impact: Difficult to pass higher refined product costs. Will be dependent on Govt for additional subsidy
Daqin Railway	China	Industrials	15.96	9.82	1.76	Richard Wei, CFA	Buy	Oil	14%	No	Both passenger fare and freight tariff are tightly controlled by MOR and China NDRC and are not easily changed, so any fuel price increase would likely boost cost pressure.
Belle International Holdings	China	Consumer Discretionary	15.49	29.73	5.71	Spencer Leung; Erica Poon Werkun, CFA	Buy	Oil; Leather	20%	Partial	
China COSCO Holdings - A	China	Industrials	15.21	17.75	1.91	Richard Wei, CFA	Sell	Oil, iron ore, coal & other bulks	22%	Partial	The company can set bunker charges to pass part of the cost. Whether the charge can be successfully implemented may depend on seasonality. It also lock-ins fuel prices. The price change of commodities (iron ore, coal, etc.) may have impact on shipping volumes.
Singapore Airlines	Sing	Industrials	14.32	10.58	1.17	Richard Wei, CFA; Eric Lin	Buy	Oil	33%	Partial	The last fuel surcharge increase for both Singapore Airlines and SilkAir was in June 2008
China COSCO Holdings	China	Industrials	12.30	16.64	1.81	Richard Wei, CFA	Sell	Oil, iron ore, coal & other bulks	22%	Partial	The company can set bunker charges to pass part of the cost. Whether the charge can be successfully implemented may depend on seasonality. It also lock-ins fuel prices. The price change of commodities (iron ore, coal, etc.) may have impact on shipping volumes.
Cathay Pacific	HK	Industrials	11.44	8.38	1.41	Richard Wei, CFA; Eric Lin	Buy (CBE)	Oil	35%	Partial	Higher oil price is a problem as oil is the biggest cost item and product pricing is independent of input cost. However, when demand is strong - as it is now - airlines can pass though the cost increases. The civil aviation authorities are currently reviewing passenger fuel surcharge applications for airlines every month compared to every two months previously. Cathay has received approvals to raise fuel surcharges by 3% - 8% in Nov and 9%-11% in Dec.
Hengan International Group	China	Consumer Staples	9.87	24.41	6.31	Spencer Leung; Erica Poon Werkun, CFA	Neutral	Pulp; Oil	45%	Partial	
China Shipping Container Lines - A	China	Industrials	8.47	17.28	1.89	Richard Wei, CFA	Neutral	Oil	25%	Partial	The company can set bunker charges to pass part of the cost. Whether the charge can be successfully implemented may depend on seasonality. It also lock-ins fuel prices.

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
Orient Overseas (International) Limited	HK	Industrials	6.76	84.55	9.00	Richard Wei, CFA	Neutral	Oil	20%	Partial	The company can set bunker charges to pass part of the cost. Whether the charge can be successfully implemented may depend on seasonality. It also lock-ins fuel prices.
Yue Yuen Industrial	HK	Consumer Discretionary	5.95	92.38	12.58	Spencer Leung; Erica Poon Werkun, CFA	Buy	Oil	20%	Partial	
China Shipping Container Lines	China	Industrials	5.94	13.56	1.48	Richard Wei, CFA	Neutral	Oil	25%	Partial	The company can set bunker charges to pass part of the cost. Whether the charge can be successfully implemented may depend on seasonality. It also lock-ins fuel prices.
Asian Paints Ltd.	India	Materials	5.80	23.89	9.86	Sunita Sachdev	Buy	Oil			
Bharat Petroleum Corporation	India	Energy	4.96	11.42	NA	Prakash Joshi; Ruchi Patwari	Sell	Oil		Partial	Refining and marketing company; Indirect impact: Difficult to pass higher refined product costs. Will be dependent on Govt for additional subsidy
Neptune Orient Lines	Sing	Industrials	4.62	14.03	1.65	Richard Wei, CFA	Neutral	Oil	20%	Partial	The company can set bunker charges to pass part of the cost. Whether the charge can be successfully implemented may depend on seasonality. It also lock-ins fuel prices.
Korean Air	Korea	Industrials	4.44	8.33	1.21	Eric Lin; Richard Wei, CFA	Buy (CBE)	Oil	33%	Partial	Airfares of Korean airlines have increased in the recent months as a result of strong demand. Complaints from travellers made the government to ask the airlines to lower fares.
Hyundai Merchant Marine	Korea	Industrials	4.40	30.86	4.41	Eric Lin; Richard Wei, CFA	Neutral (CBE)	Oil		Partial	The company can set bunker charges to pass part of the cost. It also involves in fuel hedging. But the price change of iron ore, coal and other dry bulk may have impact on shipping volume
Anta Sports Products	China	Consumer Discretionary	4.26	18.39	5.10	Spencer Leung; Erica Poon Werkun, CFA	Buy	Oil; Cotton	20%	Partial	
China Airlines	Taiwan	Industrials	3.81	5.90	1.41	Eric Lin; Richard Wei, CFA	Neutral (CBE)	Oil	45%	Partial	Higher oil price is a problem as oil is the biggest cost item and product pricing is independent of input cost. However, when demand is strong - as it is now - airlines can pass though the cost increases.
Guangshen Railway - A	China	Industrials	3.79	18.17	1.02	Richard Wei, CFA	Neutral	Oil	13%	No	Both passenger fare and freight tariff are tightly controlled by MOR and China NDRC and are not easily changed, so any fuel price increase would likely boost cost pressure.
EVA Air	Taiwan	Industrials	3.53	7.28	1.71	Eric Lin; Richard Wei, CFA	Neutral (CBE)	Oil	44%	Partial	Higher oil price is a problem as oil is the biggest cost item and product pricing is independent of input cost. However, when demand is strong - as it is now - airlines can pass though the cost increases.

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
Thai Airways	Thailand	Industrials	3.45	7.46	1.03	Eric Lin; Richard Wei, CFA	Buy	Oil	34%	Partial	Higher oil price is a problem as oil is the biggest cost item and product pricing is independent of input cost. However, when demand is strong - as it is now - airlines can pass through the cost increases.
Evergreen Marine	Taiwan	Industrials	3.22	10.36	1.08	Eric Lin; Richard Wei, CFA	Neutral	Oil		Partial	The company can set bunker charges to pass part of the cost. It also involves in fuel hedging.
Guangshen Railway	China	Industrials	2.94	16.91	0.95	Richard Wei, CFA	Buy	Oil	13%	No	Both passenger fare and freight tariff are tightly controlled by MOR and China NDRC and are not easily changed, so any fuel price increase would likely boost cost pressure.
Hindustan Petroleum	India	Energy	2.88	8.75	NA	Prakash Joshi; Ruchi Patwari	Neutral	Oil		Partial	Refining and marketing company: Indirect impact: Difficult to pass higher refined product costs. Will be dependent on Govt for additional subsidy
Yang Ming Marine	Taiwan	Industrials	2.66	8.50	1.23	Eric Lin; Richard Wei, CFA	Sell	Oil	20%	Partial	The company can set bunker charges to pass part of the cost. It also involves in fuel hedging.
ComfortDelGro	Sing	Industrials	2.63	13.61	1.70	Cheryl Lee, CFA	Buy	Oil	10%	No	Regulated tariffs for bus and rail businesses, and operator bears cost of higher fuel.
AirAsia	Malay	Industrials	2.57	NA	NA	Nicole Goh; Richard Wei, CFA	Sell (CBE)	Oil			
SMRT Corporation Ltd	Sing	Industrials	2.42	16.29	3.18	Cheryl Lee, CFA	Neutral	Oil	15%	No	Regulated tariffs for bus and rail businesses, and operator bears cost of higher fuel.
Li Ning	China	Consumer Discretionary	2.28	14.15	3.74	Spencer Leung; Erica Poon Werkun, CFA	Neutral	Oil; Cotton	20%	Partial	
China Railway Tielong Container Logistic	China	Industrials	2.16	36.05	4.70	Richard Wei, CFA	Suspended	Oil			
Wan Hai Lines	Taiwan	Industrials	1.81	9.16	1.37	Eric Lin; Richard Wei, CFA	Buy	Oil	24%	Partial	The company can set bunker charges to pass part of the cost. It also involves in fuel hedging.
COSCO Shipping	China	Industrials	1.70	16.96	1.13	Richard Wei, CFA	Buy	Oil	35%	Partial	High bargain power against customers; therefore can be mostly passed through to customers
Daphne International	China	Consumer Discretionary	1.70	13.39	3.83	Spencer Leung; Erica Poon Werkun, CFA	Buy	Oil; Leather	20%	Partial	
Asiana Airlines	Korea	Industrials	1.64	5.18	1.52	Eric Lin; Richard Wei, CFA	Neutral (CBE)	Oil	31%	Partial	Higher oil price is a problem as oil is the biggest cost item and product pricing is independent of input cost. However, when demand is strong - as it is now - airlines can pass through the cost increases.

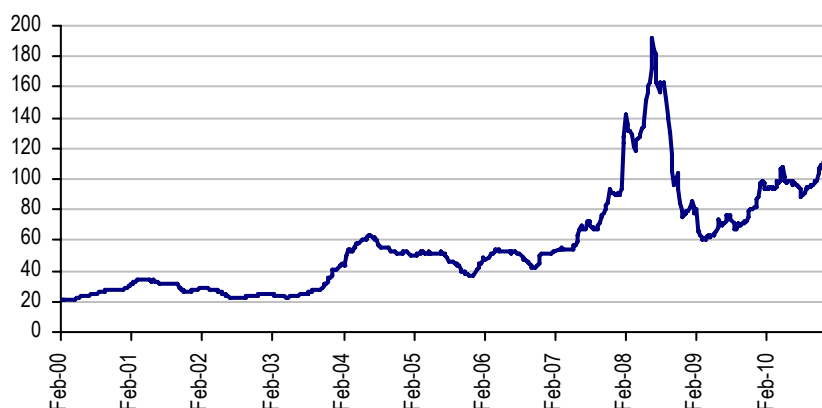
Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass- thru? (Yes/No/ Partial)	Analyst comment
Xtep International Holdings	China	Consumer Discretionary	1.55	12.64	3.01	Spencer Leung; Erica Poon Werkun, CFA	Buy	Oil; Cotton	20%	Partial	
Hanjin Shipping Holdings	Korea	Industrials	0.24	(16.53)	0.88	Eric Lin; Richard Wei, CFA	Sell	Oil		Partial	The company can set bunker charges to pass part of the cost. It also involves in fuel hedging. But the price change of iron ore, coal and other dry bulk may have impact on shipping volume

Source: UBS estimates

Coal

The coal price has been on an uptrend over the past 12 months but the recent floods in Australia have led to a notable acceleration in the price increase. As our commodities team believes the restoration of mining capacity is likely to take months, if not longer, we forecast that the coal prices will stay elevated at near current levels throughout 2011 and 2012.

Chart 6: Newcastle 6700kc GAD fob steam coal spot price (US\$/ton)



Price change

Last 3 months: +46%

6 months: +44%

12 months: +57%

Source: Bloomberg

Whilst coal has less widespread impact on the economy compared with oil, it is the most important energy source for power generation for most Asian economies as well as a key input for steel and cement production, which are crucial materials for fixed asset investments.

Indonesia is considered a key beneficiary of higher coal prices as mining companies form a significant part of the equity market. By extension, equipment manufacturers and companies that are geared to the Indonesian economy are indirect beneficiaries.

Table 6: Stock clusters in Asia ex Japan affected by higher coal prices

	Positive impact	Negative impact
Direct	Coal miners	Steel producers Cement producers Utilities
Indirect	Mining equipment suppliers	Heavy industries (higher electricity cost in markets where there are pass-through)

Source: UBS estimates

In terms of impact by individual stocks covered by UBS (Table 7), the earnings sensitivity amongst coal miners are broadly between 2-3% for every 1% increase in the coal price, according to our analysts. The major differences between the Chinese and Indonesian producers lie mainly in the corporate structure and degree of government control: amongst the Chinese miners, greater government control implies greater risk of price controls (though in some cases offset by the benefit of easier access to financing and mining assets);

for the Indonesian miners. Some of the Indonesian miners are part of a conglomerate structure which entails exposure to non-coal mining assets.

The biggest group of stocks that are the most negatively impacted are utilities. They have varying degrees of pricing power: Hong Kong Electric and CLP, for instance, enjoy protection from explicit fuel pass-through mechanisms and operate under a strong regulatory regime. KEPCO and the Chinese IPPs, on the other hand, are often stuck with the negative impact from higher fuel cost due to their inability to raise tariffs.

Steel companies represent another group that is negatively impacted as coking coal and iron ore are their major costs. Yong Suk Son and Hubert Tang, our steel analysts, believe that whilst coal prices are rising, steel prices are increasing as well so steel companies should be able to offset some of the impact.

Cement companies in China have 40% of their raw materials costs in coal, yet they are amongst the best performers in the last 6 months. Cement supply has been disrupted by electricity shortages in China in H2 2010, and demand has continued to be robust, thereby allowing the cement producers to pass on cost. As the Chinese government is restricting construction of new capacity, Mick Mi, our analyst, believes that pricing power is sustainable. CNBM is a UBS Key Call.

Table 7: Stocks likely to be impacted by Coal under UBS coverage

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
<i>Positive impact</i>											
China Shenhua Energy	China	Energy	88.00	16.95	2.30	Ghee Peh	Buy	Thermal Coal			1% change of coal price, 2011E profit up 2.17%, 2012E profit up 2.15%
China Shenhua Energy - A	China	Energy	74.87	12.48	1.62	Ghee Peh; Wendy Wang	Buy	Thermal Coal			1% change of coal price, 2011E profit up 2.17%, 2012E profit up 2.15%
China Coal Energy - A	China	Energy	22.06	10.67	1.37	Ghee Peh; Wendy Wang	Buy	Thermal Coal			1% change of coal price, 2011E profit up 2.44%, 2012E profit up 2.52%
China Coal Energy	China	Energy	22.00	13.73	1.97	Ghee Peh	Buy	Thermal Coal			1% change of coal price, 2011E profit up 2.44%, 2012E profit up 2.52%
Yanzhou Coal Mining - A	China	Energy	21.35	15.61	3.08	Ghee Peh; Wendy Wang	Buy	Thermal Coal			1% change of coal price, 2011E profit up 2.54%, 2012E profit up 2.61%
Yanzhou Coal Mining	China	Energy	16.10	11.41	2.79	Ghee Peh	Buy	Thermal Coal			1% change of coal price, 2011E profit up 2.54%, 2012E profit up 2.61%
Adaro Energy	Indo	Energy	9.27			Andreas Bokkenheuser	Buy	Coal			2-3% change in profits per 1% change in the coal price
Banpu Public Company	Thai	Energy	7.57	10.81	3.02	Piyanan Panichkul	Suspended	Coal			
Indo Tambangraya Megah (ITM)	Indo	Energy	6.81			Andreas Bokkenheuser	Sell	Coal			2-3% change in profits per 1% change in the coal price
Bumi Resources	Indo	Energy	6.59			Andreas Bokkenheuser	Buy	Coal			2-3% change in profits per 1% change in the coal price
Bukit Asam (PTBA)	Indo	Energy	5.72	13.77	5.46	Andreas Bokkenheuser	Buy	Coal			2-3% change in profits per 1% change in the coal price
Fushan International Energy	China	Materials	4.22	14.72	1.85	Ghee Peh; Wendy Wang; Chirag Saglani	Neutral	Coking Coal			1% coking coal price, profit changes 1.69% for 2011E and 1.86% for 2012E.
Straits Asia Resources Limited	Indo	Energy	2.52	14.98	5.10	Andreas Bokkenheuser	Buy	Coal			2-3% change in profits per 1% change in the coal price
Hidili Industry Int'l Development	China	Materials	1.98	13.95	2.45	Ghee Peh	Neutral	Coking Coal			1% change of coal price, 2011E profit up 2.56%, 2012E profit up 2.52%
<i>Neutral impact</i>											
National Thermal Power Corporation Ltd.	India	Utilities	34.91	15.47	2.16	Pankaj Sharma	Neutral	Coal	70%	Yes	
Adani Enterprises	India	Industrials	15.15	19.06	5.89	Sandip Bansal; Pankaj Sharma	Sell	Coal	90%	Yes	In their trading business, mostly variable priced/indexed contracts
Reliance Power	India	Utilities	7.98	38.43	2.03	Pankaj Sharma	Sell	Coal	65%	Yes	
Tata Power	India	Utilities	6.64	15.04	2.06	Pankaj Sharma	Buy	Coal, gas, oil	60%	Yes	

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
Adani Power	India	Utilities	5.91	15.26	4.15	Pankaj Sharma	Buy	Coal	55%	Yes	
Reliance Infrastructure	India	Utilities	4.46	10.91	0.86	Pankaj Sharma	Buy	Coal, cement, steel	60%	Yes	
Lanco Infratech	India	Industrials	3.02	10.31	2.28	Pankaj Sharma	Buy	Coal, gas	50%	Yes	
Electricity Generating Co.	Thai	Utilities	1.89	7.76	0.94	Butsakon Khoosuwan	Buy	Coal / Natural gas		Yes	Thai IPPs have inbuilt full cost pass-thru mechanism in power purchase agreements. EGCO's cost is directly paid by EGAT.
<i>Negative impact</i>											
POSCO	Korea	Materials	38.66	8.73	1.08	Yong-Suk Son, CFA	Buy	Coal, Iron Ore	45%	Partial	Iron ore and coal are key raw materials for BF steel makers (27% and 18% of cost, respectively). Though we expect pick up in steel demand in 2011, we believe steel makers may not be able to pass on the cost if raw material price rises sharply. Nonetheless, given inventory lag and rising steel price, earnings and share price should be firm in 1H but weaken in 2H.
CLP Holdings	HK	Utilities	20.01	14.76	1.94	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Buy	Coal, Gas	35%	Yes	Fuel cost pass through for its Hong Kong power business; impact from coal price change for its coal-fired power plants in China is limited to its overall earnings
Baosteel	China	Materials	18.11	7.66	1.00	Hubert Tang, CFA; Yong-Suk Son, CFA	Buy	Iron ore, Coking Coal	iron ore: 35%; coking coal: 18.4%	Yes	Baosteel has better product mix and leading market share in high-end flat product market, so could pass through cost increase to downstream sectors
Anhui Conch Cement	China	Materials	17.49	14.94	3.11	Mick Mi	Buy (CBE)	Coal	40%	Yes	
KEPCO	Korea	Utilities	16.53	12.80	0.43	Ji Chung	Buy	Coal, oil	62%	No	KEPCO to adopt fuel-cost pass through system from July 2011, which means it should be able to pass on fuel cost burden to customers
China Steel	Taiwan	Materials	15.58	13.17	1.55	Yong-Suk Son, CFA	Neutral	Coal, Iron Ore	59%	Partial	Iron ore and coal are key raw materials for BF steel makers (36% and 23% of cost, respectively). Though we expect pick up in steel demand in 2011, we believe steel makers may not be able to pass on the cost if raw material price rises sharply. Nonetheless, given inventory lag and rising steel price, earnings and share price should be firm in 1H but weaken in 2H.
Anhui Conch Cement - A	China	Materials	15.40	10.92	2.26	Mick Mi	Buy	Coal	40%	Yes	
Hongkong Electric	HK	Utilities	13.55	12.27	1.79	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Buy	Coal, Gas	60%	Yes	Fuel cost pass through for its Hong Kong power business; impact from coal price change for its coal-fired power plants in China is limited to its overall earnings
Tenaga Nasional	Malay	Utilities	11.66	14.89	1.15	Nicole Goh	Buy	Coal	9%	No	15% higher coal price would lead to 8% lower EPS
Angang Steel	China	Materials	11.63	26.37	1.51	Hubert Tang, CFA; Yong-	Neutral	Iron ore,	iron ore:	Partial	Iron ore and coking coal are biggest cost items for steel production, steel

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
						Suk Son, CFA	(CBE)	Coking Coal	21%; coking coal: 15%		mills could only partially pass through cost increase due to over supply issue
Datang International Power - A	China	Utilities	11.43	47.20	1.97	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Sell	Coal	60%	No	No reliable fuel pass-through in place. Chinese government could delay the power tariff hike due to inflation concerns.
Hyundai Steel	Korea	Materials	10.26	8.61	1.26	Yong-Suk Son, CFA	Buy	Coal, Iron Ore	31%	Partial	Iron ore and coal are key raw materials for BF steel makers (19% and 11% of cost, respectively). Though we expect pick up in steel demand in 2011, we believe steel makers may not be able to pass on the cost if raw material price rises sharply. Nonetheless, given inventory lag and rising steel price, earnings and share price should be firm in 1H but weaken in 2H.
Huaneng Power International - A	China	Utilities	10.00	41.30	1.18	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Neutral	Coal	70%	No	No reliable fuel pass-through in place. Chinese government could delay the power tariff hike due to inflation concerns.
Angang Steel - A	China	Materials	8.90	9.79	0.90	Hubert Tang, CFA; Yong-Suk Son, CFA	Buy	Iron ore, Coking Coal	iron ore: 21%; coking coal: 15%	Partial	Iron ore and coking coal are biggest cost items for steel production, steel mills could only partially pass through cost increase due to over supply issue
China Resources Power	China	Utilities	8.11	12.09	1.44	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Buy	Coal	65%	No	No reliable fuel pass-through in place. However, the company has the highest margin and is the least sensitive among Chinese IPPs
China National Building Materials	China	Materials	7.15	8.93	2.08	Mick Mi	Buy	Coal	40%	Yes	
Huaneng Power International	China	Utilities	6.50	33.54	1.12	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Neutral	Coal	70%	No	No reliable fuel pass-through in place. Chinese government could delay the power tariff hike due to inflation concerns.
UltraTech Cement	India	Materials	6.14	15.39	2.23	Sandip Bansal	Sell	Coal	10%	No	Imports around one-third of its coal requirements
Indocement	Indo	Materials	6.08	10.49	3.02	Felicia Tandiyono	Buy	Coal	20%	Partial	Rising coal price can be pass through on strong demand weak supply background for cement
Semen Gresik	Indo	Materials	5.83	10.28	3.04	Felicia Tandiyono	Buy	Coal	25%	Partial	Rising coal price can be pass through on strong demand weak supply background for cement
BBMG Corporation	China	Materials	5.65	13.68	2.09	Mick Mi	Buy	Coal	40%	Yes	
Wuhan Steel	China	Materials	5.28	9.47	1.08	Hubert Tang, CFA	Neutral	Iron ore, Coking Coal	iron ore: 28.3%; coking coal: 16.91%	Partial	Iron ore and coking coal are biggest cost items for steel production, steel mills could only partially pass through cost increase due to over supply issue
Grasim Industries	India	Materials	4.92	10.41	1.44	Sandip Bansal	Buy	Cotton, Coal	5%	No	VSF realizations have a high positive correlation with cotton prices; rising coal prices negative for subsidiary Ultratech
Maanshan Iron & Steel	China	Materials	4.45	13.50	1.08	Hubert Tang, CFA; Yong-Suk Son, CFA	Neutral	Iron ore, Coking Coal	iron ore: 27%; coking	Partial	Iron ore & coking coal are biggest cost items for steel production, steel mills could only partially pass through cost increase due to over supply

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
									coal: 16%		issue
Datang International Power	China	Utilities	4.39	21.62	0.97	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Neutral	Coal	60%	No	No reliable fuel pass-through in place. Chinese government could delay the power tariff hike due to inflation concerns.
Ambuja Cements Limited	India	Materials	4.35	14.83	2.38	Sandip Bansal	Sell	Coal	10%	No	Imports around one-third of its coal requirements
ACC Limited	India	Materials	4.29	14.53	2.51	Sandip Bansal	Sell	Coal	7%	No	Imports about 15% of its coal requirements
Maanshan Iron & Steel - A	China	Materials	4.19	9.11	0.85	Hubert Tang, CFA	Buy	Iron ore, Coking Coal	iron ore: 27%; coking coal: 16%	Partial	Iron ore and coking coal are biggest cost items for steel production, steel mills could only partially pass through cost increase due to over supply issue
Taiwan Cement	Taiwan	Materials	3.73	12.54	1.23	Ally Chen; Ko-chin Tsuei	Buy	Coal	35-40%	Partial	Coal cost pressure can possibly be passed through during high season when demand is strong
Asia Cement	Taiwan	Materials	3.45	14.75	1.21	Ally Chen; Ko-chin Tsuei	Neutral	Coal	35-40%	Partial	Coal cost pressure can possibly be passed through during high season when demand is strong
Tangshan Jidong Cement	China	Materials	3.35	NA	NA	Mick Mi	Buy	Coal	40%	Partial	
Huadian Power International - A	China	Utilities	3.29	(27.65)	1.43	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Neutral	Coal	70%	No	No reliable fuel pass-through in place. Earnings very sensitive to coal price changes. We forecast the company to report net losses (excl. one-off items) in 2010 due to high coal price
Lafarge Malayan Cement	Malay	Materials	2.16	16.00	2.01	Khairul Rifaie	Sell				
Glow Energy PCL	Thai	Utilities	2.07	13.14	1.39	Butsakon Khoosuwan	Buy	Coal / Natural gas	76%	Partial	Glow sells a part of power produced to industrial customers as well, this segment is exposed to fuel cost risk.
Dongkuk Steel Mill	Korea	Materials	1.96	7.87	0.64	Yong-Suk Son, CFA	Suspended	Steel (Slab)			
Siam City Cement	Thai	Materials	1.88	16.20	3.31	Butsakon Khoosuwan	Sell				
Holcim Indonesia	Indo	Materials	1.82	10.75	2.62	Felicia Tandiyono	Buy	Coal	25%	Partial	Rising coal price can be pass through on strong demand weak supply background for cement
Huaxin Cement - A	China	Materials	1.68	14.60	1.26	Mick Mi	Buy	Coal	40%	Yes	
Huadian Power International	China	Utilities	1.35	(14.55)	0.75	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Sell	Coal	70%	No	No reliable fuel pass-through in place. Earnings very sensitive to coal price changes. We forecast the company to report net losses (excl. one-off items) in 2010 due to high coal price
China Metal Recycling Holdings	China	Materials	1.35	6.77	1.69	Hubert Tang, CFA; Janet Sun	Buy	Scrap			For every 10% ferrous metal price increase, CMR's 2011E eps should increase by 32.3%
China Power Int Development	China	Utilities	1.06	29.57	0.63	Stephen Oldfield; David Pow, CFA; Yuxiao Peng	Sell	Coal	60%	No	No reliable fuel pass-through in place. Chinese government could delay the power tariff hike due to inflation concerns.

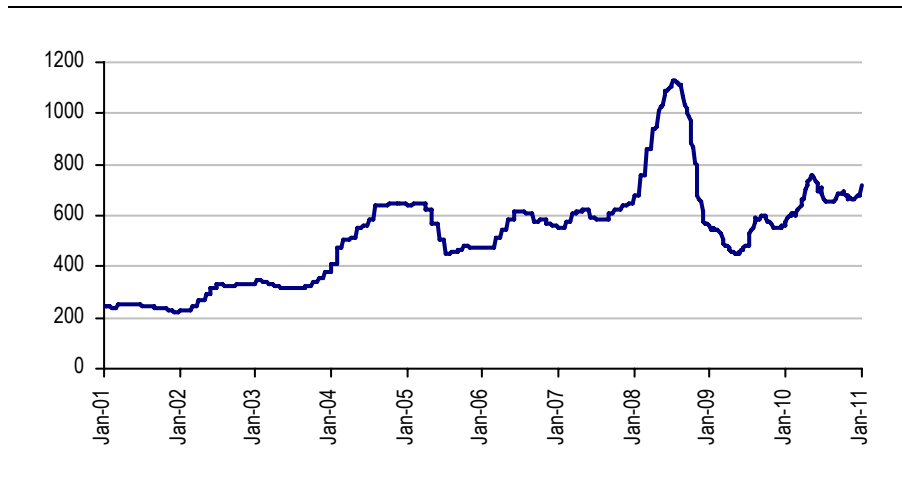
Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
India Cements	India	Materials	0.71	14.69	0.69	Sandip Bansal	Sell (CBE)	Coal	15%	No	Imports about two-thirds of its coal requirements
Jai Balaji Industries	India	Materials	0.34	6.71	1.08	Gautam Chhaochharia	Buy	Power grade Coal, Coking Coal, iron ore		Partial	Coal and Iron ore lumps/fines are a key input for the company's sponge /pig iron production. Any sharp increase in prices of these inputs without commensurate increase in steel prices would negatively impact the earnings.
Coal India	India	Energy	43.26	16.39	4.96	Navin Gupta, CFA	Buy	Coal		No	Coal India sells majority of coal at quasi market prices, therefore higher global coal prices do not benefit CIL. Profit sensitivity to global prices is negligible.
Steel Authority of India	India	Materials	16.21	12.50	1.72	Navin Gupta, CFA	Buy	Met Coal, Thermal Coal	42%	Partial	SAIL is has 100% captive iron ore and 30% captive coking coal. Therefore the company is mainly impacted by global coking coal prices. Steel majors can pass on the cost increases only partially because of slower demand growth and lower capacity utilization in global steel production (75% current vs 91% in FY08).
Tata Steel Ltd.	India	Materials	12.77	10.68	1.64	Navin Gupta, CFA	Buy	Iron Ore, Met Coal, Thermal Coal	52% (for Tata Steel Consol), 20% (for Tata Steel India)	Partial	Tata Steel India has 100% captive iron ore and 50% captive coking coal. So the impact of global price raise is only 20% of costs. But European operations are fully exposed to global prices of both coal and iron ore. So consolidated company has 52% of costs exposed to global prices. Steel majors can pass on the cost increases only partially because of slower demand growth and lower capacity utilization in global steel production (75% current vs 91% in FY08).
JSW Steel	India	Materials	4.13	12.06	1.34	Navin Gupta, CFA	Neutral	Iron Ore, Met Coal, Thermal Coal	75%	Partial	JSW has 30% captive iron ore and is fully exposed to coking coal prices. 75% of JSW's raw material costs are exposed to global price movements. Steel majors can pass on the cost increases only partially because of slower demand growth and lower capacity utilization in global steel production (75% current vs 91% in FY08).

Source: UBS estimates

Steel

The rise in steel prices has been relatively subdued in the recent months in part due to concerns of slower demand in China as well as general industry overcapacity. Our analysts, Yong Suk Son and Hubert Tang, are more optimistic that steel mills should have better pricing power in Q1 with potential re-stocking and some re-acceleration in demand. In general, higher commodity prices should negatively affect steel mills as they do not have direct pass-through of their coal and iron ore costs.

Chart 7: World hot rolled coil price tracker (US\$/mt)



Price change

Last 3 months: +11%

6 months: +11%

12 months: +35%

Source: Bloomberg

Higher steel prices benefit steel mills but negatively affect downstream users of steel – mainly industrial companies. Auto makers and shipbuilding are amongst the heaviest users of steel.

Table 8: Stock clusters in Asia ex Japan affected by higher steel prices

	Positive impact	Negative impact
Direct	Steel mills	Shipbuilding Auto manufacturing Machinery producers Engineering & construction companies

Source: UBS estimates

Amongst steel makers, our analysts believe they tend to be net losers from higher coal and iron ore costs, although in the near-term pricing power should improve. In China, Baosteel has the best pricing power, according to Hubert, and Yong Suk believes that the share prices of the Korean steelmakers should benefit from higher steel prices and some restocking in H1.

In general, our analysts appear to be sanguine about steel cost for stocks that are negatively affected. Young Chang, our Korean auto analyst, believes that margins should be relatively well-protected despite steel being 60% of the cost of goods sold. Sonal Gupta, our Indian auto analyst, notes that companies have hiked prices to offset cost increases, and seem confident this will continue.

The same is true for other sectors. Richard Wei, our China rail analyst, believes that the Ministry of Rail will aim to protect the rolling stock companies' profitability even though 80% of their input costs comprise of steel, aluminium and copper, and pricing of their products are determined by their customer (Ministry of Rail). For the Korean E&C companies, Yong Suk also believes in decent abilities to pass through higher costs.

From a top-down perspective, we think this probably reflects the relatively subdued price increases in steel over the past 6 months and hence the lack of pressure on the supply chain. However, if steel mills were to be able to gain some pricing power in H1, as Yong Suk and Hubert predict, higher steel cost could become more topical over the next 6 months, which currently does not seem to be a major concern per our analyst comments.

Table 9: Stocks likely to be impacted by Steel under UBS coverage

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
<i>Positive impact</i>											
POSCO	Korea	Materials	38.66	8.73	1.08	Yong-Suk Son, CFA	Buy	Coal, Iron Ore	45%	Partial	Iron ore and coal are key raw materials for BF steel makers (27% and 18% of cost, respectively). Though we expect pick up in steel demand in 2011, we believe steel makers may not be able to pass on the cost if raw material price rises sharply. Nonetheless, given inventory lag and rising steel price, earnings and share price should be firm in 1H but weaken in 2H.
Baosteel	China	Materials	18.11	7.66	1.00	Hubert Tang, CFA; Yong-Suk Son, CFA	Buy	Iron ore, coking coal	iron ore: 35%; coking coal: 18.4%	Yes	Baosteel has better product mix and leading market share in high-end flat product market, so could pass through cost increase to downstream sectors
China Steel	Taiwan	Materials	15.58	13.17	1.55	Yong-Suk Son, CFA	Neutral	Coal, Iron Ore	59%	Partial	Iron ore and coal are key raw materials for BF steel makers (36% and 23% of cost, respectively). Though we expect pick up in steel demand in 2011, we believe steel makers may not be able to pass on the cost if raw material price rises sharply. Nonetheless, given inventory lag and rising steel price, earnings and share price should be firm in 1H but weaken in 2H.
Angang Steel	China	Materials	11.63	26.37	1.51	Hubert Tang, CFA; Yong-Suk Son, CFA	Neutral (CBE)	Iron ore, coking coal	iron ore: 21%; coking coal: 15%	Partial	Iron ore and coking coal are biggest cost items for steel production, steel mills could only partially pass through cost increase due to over supply issue
Hyundai Steel	Korea	Materials	10.26	8.61	1.26	Yong-Suk Son, CFA	Buy	Coal, Iron Ore	31%	Partial	Iron ore and coal are key raw materials for BF steel makers (19% and 11% of cost, respectively). Though we expect pick up in steel demand in 2011, we believe steel makers may not be able to pass on the cost if raw material price rises sharply. Nonetheless, given inventory lag and rising steel price, earnings and share price should be firm in 1H but weaken in 2H.
Wuhan Steel	China	Materials	5.28	9.47	1.08	Hubert Tang, CFA	Neutral	Iron ore, coking coal	iron ore: 28.3%; coking coal: 16.91%	Partial	Iron ore and coking coal are biggest cost items for steel production, steel mills could only partially pass through cost increase due to over supply issue
Maanshan Iron & Steel	China	Materials	4.45	13.50	1.08	Hubert Tang, CFA; Yong-Suk Son, CFA	Neutral	Iron ore, coking coal	iron ore: 27.2%; coking coal: 15.96%	Partial	Iron ore and coking coal are biggest cost items for steel production, steel mills could only partially pass through cost increase due to over supply issue
Dongkuk Steel Mill	Korea	Materials	1.96	7.87	0.64	Yong-Suk Son, CFA	Suspended	Steel (Slab)			

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
China Metal Recycling Holdings	China	Materials	1.35	6.77	1.69	Hubert Tang, CFA; Janet Sun	Buy	Scrap			For every 10% ferrous metal price increase, CMR's 2011E eps could increase by 32.3%
Jai Balaji Industries	India	Materials	0.34	6.71	1.08	Gautam Chhaochharia	Buy	Raw materials - Power grade coal, coking coal and iron ore. Producer of steel		Partial	Coal and Iron ore lumps/fines are a key input for the company's sponge /pig iron production. Any sharp increase in prices of these inputs without commensurate increase in steel prices would negatively impact the earnings.
<i>Netutral impact</i>											
Punj Lloyd	India	Industrials	0.75	10.73	0.95	Sandip Bansal	Sell	Steel, crude	30%	Partial	A large proportion of contracts have free supply/pass through clauses for steel; higher crude prices could lead to increase in oil/gas capex which would be beneficial
<i>Negative impact</i>											
Hyundai Motor	Korea	Consumer Discretionary	38.26	6.99	1.30	Young Chang	Buy	Steel	60%	Partial	Comprises 80% of cost of goods sold, but not a major factor on margins
Hyundai Heavy Industries	Korea	Industrials	33.60	10.77	2.26	Yong-Suk Son, CFA	Buy	Steel, Oil	20% (Steel)	No	1) Steel is the biggest cost item. The disruption in coal supply and subsequent rise in steel prices are likely to be the key risk for shipyards' earnings in 2011. This is especially important as expectation is for earnings to rise in 1H11. 2) Higher oil price tend to have positive correlation with tanker and offshore platforms, which are some of the main order driver for Korean yards.
L & T	India	Industrials	23.50	18.22	4.67	Sandip Bansal; Pankaj Sharma	Buy	Steel, crude	20%	Partial	A larger proportion of contracts are variable priced contracts
Kia Motors	Korea	Consumer Discretionary	19.54	8.35	1.76	Young Chang	Buy	Steel	60%	Partial	Comprises 80% of cost of goods sold, but not a major factor on margins
Tata Motors Ltd.	India	Industrials	16.49	7.70	2.91	Sonal Gupta	Neutral	Steel, Rubber, aluminum, oil	17-18%	Partial	Has taken price increase to extent of 1-1.5% in jan'11 to offset higher input costs
CSR Corp	China	Industrials	16.42	30.86	5.72	Richard Wei, CFA	Neutral	Steel/aluminum/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
SANY Heavy Industry	China	Industrials	16.05	NA	NA	Mick Mi	Suspended	Steel			
Shanghai Electric Group - A	China	Industrials	15.83	28.78	3.50	Patrick Dai	Buy	Steel/copper	60%	Partial	

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
CSR Corp - A	China	Industrials	14.63	24.49	4.54	Richard Wei, CFA	Buy	Steel/aluminum/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
Changsha Zoomlion Heavy Industry	China	Industrials	10.27	NA	NA	Mick Mi	Buy	Steel			
China CNR	China	Industrials	10.04	23.06	2.95	Richard Wei, CFA	Buy	Steel/aluminum/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
Dongfang Electric-A	China	Industrials	9.86	20.33	4.42	Patrick Dai	Buy	Steel/copper	60%	Partial	
Mahindra & Mahindra	India	Consumer Discretionary	9.43	15.97	3.32	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	16-17%	Partial	Has taken price increase to extent of 1% in jan'11 to offset higher input costs
Dongfang Electric	China	Industrials	9.32	21.70	4.84	Patrick Dai	Buy	Steel/copper	60%	Partial	
Shanghai Electric Group	China	Industrials	8.56	19.25	2.26	Patrick Dai	Buy	Steel/copper	60%	Partial	
Maruti Suzuki India	India	Consumer Discretionary	8.45	13.68	2.30	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	16-17%	Partial	
Hyundai E&C	Korea	Industrials	8.40	15.76	2.30	Yong-Suk Son, CFA	Buy	Steel, Cement, Oil	4.2% (Steel, Cement)	Partial	1) Steel and cement comprise 2-3% of cost each. Cost increase can be passed on for public projects, but for private works, which is the majority for E&Cs, pass through is difficult. However, as steel, cement as % of total cost is low, the impact is not significant unless we see a sharp rise in the respective commodity price. 2) Higher oil price could trigger the new orders from Middle East which is major source of overseas new orders for Korean E&Cs.
Samsung Heavy Ind.	Korea	Industrials	8.30	11.46	2.28	Yong-Suk Son, CFA	Buy	Steel, Oil	20% (Steel)	No	1) Steel is the biggest cost item. The disruption in coal supply and subsequent rise in steel prices are likely to be the key risk for shipyards' earnings in 2011E. This is especially important as expectation is for earnings to rise in 1H11. 2) Higher oil price tend to have positive correlation with tanker and offshore platforms, which are some of the main order driver for Korean yards.
Hero Honda Ltd.	India	Consumer Discretionary	8.30	13.98	6.22	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	14-15%	Partial	Has taken price increase to extent of 2% in dec'10 to offset higher input costs
Bajaj Auto	India	Consumer Discretionary	8.26	14.77	3.77	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	15-16%	Partial	Has taken price increase to extent of 2% in dec'10 to offset higher input costs
Xinjiang Goldwind Science&Technology	China	Industrials	7.46	12.35	4.51	Patrick Dai	Buy	Steel	10%	Partial	

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
Daewoo Shipbuilding & Marine Engineering	Korea	Industrials	6.52	8.10	1.57	Yong-Suk Son, CFA	Neutral (CBE)	Steel, Oil	20% (Steel)	No	1) Steel is the biggest cost item. The disruption in coal supply and subsequent rise in steel prices are likely to be the key risk for shipyards' earnings in 2011E. This is especially important as expectation is for earnings to rise in 1H11. 2) Higher oil price tend to have positive correlation with tanker and offshore platforms, which are some of the main order driver for Korean yards.
GS Engineering & Construction	Korea	Industrials	5.74	13.85	1.61	Yong-Suk Son, CFA	Buy (CBE)	Steel, Cement, Oil	8.7% (Steel, Cement)	Partial	1) Steel and cement comprise 6% and 3% of cost each. Cost increase can be passed on for public projects, but for private works, which is the majority for E&Cs, pass through is difficult. However, as steel, cement as % of total cost is low, the likely impact is not expected to be significant unless we see a sharp rise in the respective commodity price. 2) Higher oil price could trigger the new orders from Middle East which is major source of overseas new orders for Korean E&Cs.
Sinoma International Engineering	China	Industrials	4.40	NA	NA	Mick Mi	Buy	Steel			
Daelim Industrial Company	Korea	Industrials	4.01	11.09	0.97	Yong-Suk Son, CFA	Buy (CBE)	Steel, Cement, Oil	5.1% (Steel, Cement)	Partial	1) Steel and cement comprise 2-3% of cost each. Cost increase can be passed on for public projects, but for private works, which is the majority for E&Cs, pass through is difficult. However, as steel, cement as % of total cost is low, the impact is not significant unless we see a sharp rise in the respective commodity price. 2) Higher oil price could trigger the new orders from Middle East which is major source of overseas new orders for Korean E&Cs.
GMR Infrastructure	India	Utilities	3.54	43.45	1.29	Sandip Bansal; Pankaj Sharma	Sell	Steel, crude	20%	No	Cost increase in under construction road projects and merchant power plants
Guangxi Liugong Machinery	China	Industrials	3.51	NA	NA	Mick Mi	Buy	Steel			
Sany Heavy Equipment International-H	China	Industrials	3.38	24.71	4.34	Patrick Dai	Buy	Steel	50%	Yes	
China National Materials Co Ltd (Sinoma)	China	Industrials	3.32	16.62	2.24	Mick Mi	Buy	Steel			
Hyundai Development Co.	Korea	Industrials	2.64	8.49	1.08	Yong-Suk Son, CFA	Neutral (CBE)	Steel, Cement	6.7% (Steel, Cement)	Partial	Steel and cement comprise 2-3% of cost each. Cost increase can be passed on for public projects, but for private works, which is the majority for E&Cs, pass through is difficult. However, as steel, cement as % of total cost is low, the impact is not significant unless we see a sharp rise in the respective commodity price.
Harbin Power Equipment	China	Industrials	2.00	15.04	1.36	Patrick Dai	Buy	Steel/copper	60%	Partial	

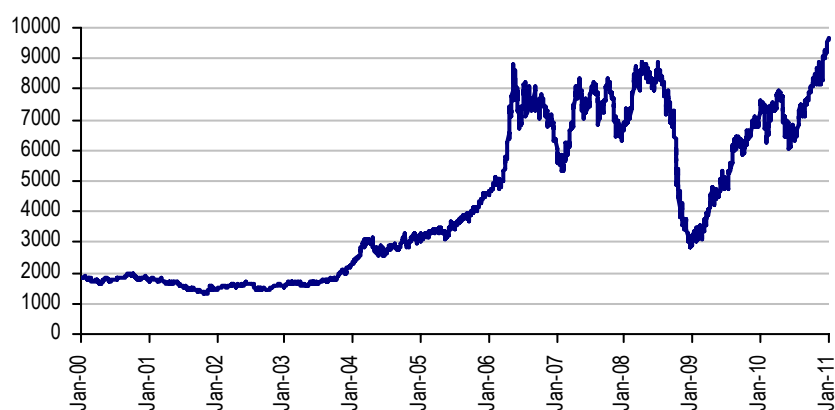
Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
China High Speed Transmission Equipment	China	Industrials	1.95	10.54	1.97	Patrick Dai	Buy	Steel	70%	Partial	
Ashok Leyland	India	Industrials	1.82	8.91	1.71	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	18-19%	Partial	
Henan Pinggao Electric	China	Industrials	1.63	45.99	3.01	Patrick Dai	Sell	Steel/copper	50%	No	
GVK Power and Infrastructure	India	Utilities	1.33	16.96	1.22	Sandip Bansal; Pankaj Sharma	Buy	Steel, crude	20%	No	Cost increase in under construction road projects
International Mining Machinery Holdings	China	Industrials	1.08	13.92	2.49	Patrick Dai; Wendy Wang	Buy	Steel	50%	Yes	
Nagarjuna Construction Company	India	Industrials	0.72	12.09	1.01	Sandip Bansal	Buy	Steel, crude	20%	Yes	Largely contracts have variable price clauses
Boer Power	China	Industrials	0.69	22.30	4.66	Patrick Dai	Buy	Steel/copper/aluminum	15%	Yes	
IVRCL	India	Industrials	0.68	10.73	1.21	Sandip Bansal	Buy (CBE)	Steel, crude	20%	Yes	Largely contracts have variable price clauses
ERA Holdings Global	China	Industrials	0.62	16.42	3.28	Patrick Dai	Buy	Steel	50%	Yes	
Tube Investments of India	India	Consumer Discretionary	0.60	13.84	2.48	Gautam Chhaohchharia	Buy	Steel, rubber	64%	Yes	The company is significantly exposed to demand from auto sector (~60%) and steel is a key input for the company's all businesses. Any major increases in steel prices can impact margins to a certain extent although the company is positioned to pass on most of the rise in prices

Source: UBS estimates

Copper

Copper production was affected in Chile and Mexico during 2010 which, together with re-stocking in China, led to a sharp rise in the price. Our global commodities team believes that copper prices will stay at relatively elevated levels in 2011 (5% below the Q1 2010E level), albeit that there could be a 15-20% decline from the current level in 2012E.

Chart 8: London Mercantile Exchange copper spot price (US\$/mt)



Price change

Last 3 months: +20%

6 months: +48%

12 months: +31%

Source: Bloomberg

There are relatively few copper miners in Asia that benefits directly from higher copper prices, whilst those that are negatively affected are mainly industrial companies.

Table 10: Stock clusters in Asia ex Japan affected by higher copper prices

	Positive impact	Negative impact
Direct	Copper producers	Machinery producers Rail car manufacturers

Source: UBS estimates

The listed copper producers under UBS coverage include Sterlite Industries and Hindalco in India, as well as Jiangxi Copper in China. We estimate Jiangxi Copper should see its 2011 and 12 profit going up by ~1.5% for every 1% increase in the copper price, all else remaining equal.

Industrial equipment producers are vulnerable to copper price increases, though they may or may not be able to pass through the cost increases depending on supply and demand within their specific industries. Amongst the companies we cover, copper, along with other industrial metals, often account for more than 60% of the input cost.

Table 11: Stocks likely to be impacted by Copper under UBS coverage

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
<i>Positive impact</i>											
Sterlite Industries	India	Materials	13.65	8.39	0.88	Navin Gupta, CFA	Buy (CBE)	Aluminium, Copper			
Jiangxi Copper	China	Materials	10.48	9.63	2.33	Ghee Peh	Neutral (CBE)	copper			Copper price up 1%, 2011E profit up 1.43% and 2012E profit up 1.47%
Hindalco Industries	India	Materials	10.08	9.26	1.75	Navin Gupta, CFA	Buy (CBE)	Aluminium, Copper			
<i>Negative impact</i>											
CSR Corp	China	Industrials	16.42	30.86	5.72	Richard Wei, CFA	Neutral	Steel/aluminium/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
Shanghai Electric Group - A	China	Industrials	15.83	28.78	3.50	Patrick Dai	Buy	Steel/copper	60%	Partial	
CSR Corp - A	China	Industrials	14.63	24.49	4.54	Richard Wei, CFA	Buy	Steel/aluminium/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
China CNR	China	Industrials	10.04	23.06	2.95	Richard Wei, CFA	Buy	Steel/aluminium/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
Dongfang Electric-A	China	Industrials	9.86	20.33	4.42	Patrick Dai	Buy	Steel/copper	60%	Partial	
Dongfang Electric	China	Industrials	9.32	21.70	4.84	Patrick Dai	Buy	Steel/copper	60%	Partial	
Shanghai Electric Group	China	Industrials	8.56	19.25	2.26	Patrick Dai	Buy	Steel/copper	60%	Partial	
Harbin Power Equipment	China	Industrials	2.00	15.04	1.36	Patrick Dai	Buy	Steel/copper	60%	Partial	
XJ Electric	China	Industrials	1.90	48.99	4.14	Patrick Dai	Suspended	Copper			
Henan Pinggao Electric	China	Industrials	1.63	45.99	3.01	Patrick Dai	Sell	Steel/copper	50%	No	
Boer Power	China	Industrials	0.69	22.30	4.66	Patrick Dai	Buy	Steel/copper/aluminum	15%	Yes	

Source: UBS estimates

Aluminium

Our global commodities team expects aluminium prices to stay at near Q1 2011 level for 2011 and 2012, as demand growth outpaces supply growth. The main demand drivers include developing markets economic growth and consumption, as well as loose US monetary policy. Whilst inventories are relatively high, our team believes that some of them are inaccessible.

Chart 9: London Mercantile Exchange aluminium spot price (US\$/mt)



Price change

Last 3 months: +4%

6 months: +23%

12 months: +10%

Source: Bloomberg

The listed aluminium producers are mainly in China and India, the two major markets. Higher aluminium prices affect a host of industrial companies including auto makers, auto part manufacturers as well as machinery manufacturers. Typically, their input cost are affected by aluminium as well as other industrial metals, and aluminium tend to be a smaller part of the input cost compared with other metals such as copper and steel.

Table 12: Stock clusters in Asia ex Japan affected by higher aluminium prices

	Positive impact	Negative impact
Direct	Aluminium producers	Auto & autopart manufacturing Machinery producers

Source: UBS estimates

At the individual stock level, the railway rolling stock companies are amongst the heaviest users of aluminium. Our China rail analyst, Richard Wei, is convinced that they will be allowed to pass through cost increases by the Ministry of Rail and hence the companies' margins should be unaffected.

Amongst the Chinese aluminium producers, our analysts, Haoxiang Li and Ghee Peh, note that the aluminium smelting is now in oversupply, and hence the companies have limited pricing power. Electricity is a large input cost of aluminium smelters and electricity prices are in turn affected by coal prices in China. Whilst, at the moment, the government seems intent on controlling inflation and therefore it seems unlikely it would let power prices rise, aluminium producers could be adversely affected should this change.

Table 13: Stocks likely to be impacted by Aluminium under UBS coverage

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass- thru? (Yes/No/ Partial)	Analyst comment
<i>Positive impact</i>											
Aluminum Corporation of China - A	China	Materials	20.85	NA	NA	Ghee Peh	Suspended	Aluminum			
Sterlite Industries	India	Materials	13.65	8.39	0.88	Navin Gupta, CFA	Buy (CBE)	Aluminium, Copper			
Aluminum Corporation of China	China	Materials	12.92	NA	NA	Ghee Peh	Suspended	Aluminum			
Hindalco Industries	India	Materials	10.08	9.26	1.75	Navin Gupta, CFA	Buy (CBE)	Aluminium, Copper			
National Aluminium Co. Ltd.	India	Materials	5.41	16.74	2.07	Navin Gupta, CFA	Sell (CBE)	Aluminium			
Jiaozuo Wanfang Aluminum	China	Materials	1.52	19.69	3.57	Haoxiang Lin	Neutral	aluminum	90%	Partial	The industry is in oversupply, and downstream demand (auto and transportation) is inelastic to changes in the aluminium price. Therefore pricing power is limited.
<i>Negative impact</i>											
Tata Motors Ltd.	India	Industrials	16.49	7.70	2.91	Sonal Gupta	Neutral	Steel, Rubber, aluminum, oil	17-18%	Partial	Has taken price increase to extent of 1-1.5% in Jan'11 to offset higher input costs
CSR Corp	China	Industrials	16.42	30.86	5.72	Richard Wei, CFA	Neutral	Steel/aluminium/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
CSR Corp - A	China	Industrials	14.63	24.49	4.54	Richard Wei, CFA	Buy	Steel/aluminium/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
China CNR	China	Industrials	10.04	23.06	2.95	Richard Wei, CFA	Buy	Steel/aluminium/copper	80%	No	Order price of locomotives and passenger trains is controlled by MOR and company does not have much bargain power; however MOR should ensure company's profitability
Mahindra & Mahindra	India	Consumer Discretionary	9.43	15.97	3.32	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	16-17%	Partial	Has taken price increase to extent of 1% in Jan'11 to offset higher input costs
Maruti Suzuki India	India	Consumer Discretionary	8.45	13.68	2.30	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	16-17%	Partial	
Hero Honda Ltd.	India	Consumer Discretionary	8.30	13.98	6.22	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	14-15%	Partial	Has taken price increase to extent of 2% in dec'10 to offset Higher input costs

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass- thru? (Yes/No/ Partial)	Analyst comment
Bajaj Auto	India	Consumer Discretionary	8.26	14.77	3.77	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	15-16%	Partial	Has taken price increase to extent of 2% in Dec'10 to offset higher input costs
China Zhongwang	China	Materials	3.08	5.09	1.14	Patrick Dai	Buy	aluminum	80%	Yes	
Halla Climate Control Corp.	Korea	Consumer Discretionary	1.96	8.04	1.50	D.S. Kim	Neutral	Alluminium	7%	Partial	
Ashok Leyland	India	Industrials	1.82	8.91	1.71	Sonal Gupta	Buy	Steel, Rubber, aluminum, oil	18-19%	Partial	
Boer Power	China	Industrials	0.69	22.30	4.66	Patrick Dai	Buy	Steel/copper/ aluminum	15%	Yes	
Carborundum Universal	India	Industrials	0.53	12.57	2.79	Gautam Chhaochharia	Buy	Aluminium			Alumina is a key raw material for the company's business.

Source: UBS estimates

Cotton

Cotton prices have almost doubled over the last 6 months, in part due to weather disruptions. Our global commodities team does not forecast cotton prices though, for agricultural commodities in general, we believe that prices should start to stabilise assuming the weather normalises

Chart 10: USDA middling grade cotton average spot price (US\$/pound)



Price change

Last 3 months: +43%

6 months: +80%

12 months: +97%

Source: Bloomberg

Table 14: Stock clusters in Asia ex Japan affected by higher cotton prices

Positive impact		Negative impact
Direct		Textiles manufacturers Consumer companies
Indirect	Synthetic materials producers	Clothing wholesalers/retailers Export services (e.g. Li & Fung)

Source: UBS estimates

Cotton impacts primarily the clothing and apparel retailers in Asia as well as the exporters in the textile trade. Within the UBS coverage universe, the key stocks that are impacted are mainly Chinese consumer companies, as well as exporters such as Li & Fung and Esprit. For most of them, our analysts have indicated that they expect the companies to have effective pass-through, which stems from robust demand in China as well as their confidence in the brand's pricing power. From a top-down perspective, the risk is that pricing power could erode should the economy slow, and given the generally high valuations of the Chinese consumer companies the market could be caught off guard.

Table 15: Stocks likely to be impacted by Cotton under UBS coverage

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
<i>Positive impact</i>											
Far Eastern New Century	Taiwan	Industrials	7.98	17.73	2.23	Ally Chen; Ko-chin Tsuei	Buy	Polyester, cotton			ASP/profitability should improve if commodity prices continue to trend up
Grasim Industries	India	Materials	4.92	10.41	1.44	Sandip Bansal	Buy	Cotton, Coal	5%	No	VSF realizations have a high positive correlation with cotton prices; rising coal prices negative for subsidiary Ultratech
<i>Negative impact</i>											
Li & Fung	Hong Kong	Consumer Discretionary	22.61	29.31	8.20	Spencer Leung; Erica Poon Werkun, CFA	Sell	Cotton	30%	Partial	Li & Fung is an agent; The level of retail ASP increase determines its effective pass-thru
Esprit	Hong Kong	Consumer Discretionary	6.14	11.19	2.45	Erica Poon Werkun, CFA	Buy	Cotton	40%	Yes	
Shanghai Metersbonwe	China	Consumer Discretionary	4.99	29.04	7.20	Erica Poon Werkun, CFA	Buy	Cotton	40%	Yes	
Anta Sports Products	China	Consumer Discretionary	4.26	18.39	5.10	Spencer Leung; Erica Poon Werkun, CFA	Buy	Oil; Cotton	20%	Partial	
Li Ning	China	Consumer Discretionary	2.28	14.15	3.74	Spencer Leung; Erica Poon Werkun, CFA	Neutral	Oil; Cotton	20%	Partial	
Boshiwa International	China	Consumer Discretionary	1.61	24.99	3.39	Erica Poon Werkun, CFA; Linda Zhao	Buy	Cotton	25%	Yes	
Ports Design	China	Consumer Discretionary	1.57	19.68	6.53	Erica Poon Werkun, CFA	Buy	Cotton	40%	Yes	
Xtep International Holdings	China	Consumer Discretionary	1.55	12.64	3.01	Spencer Leung; Erica Poon Werkun, CFA	Buy	Oil; Cotton	20%	Partial	
Giordano	China	Consumer Discretionary	0.92	16.39	3.11	Erica Poon Werkun, CFA	Neutral	Cotton	40%	Yes	

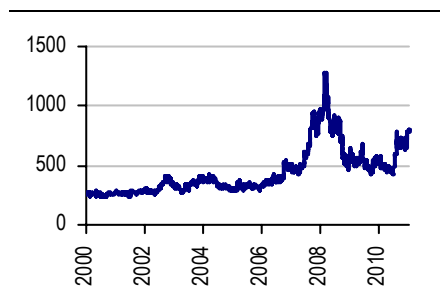
Source: UBS estimates

Agricultural commodities

Agricultural commodities are amongst those that have risen the most in the past 12 months due to major weather disruptions, ranging from droughts in Russia, China and the US to storms in Asia, Indonesia and Australia. The magnitude of the increases varies though most of Asia have seen double-digit increases in food prices, as measured by the respective government agencies, some time in 2010. We show the price trends of a few benchmark commodities below.

Our economics team believes that food price increases – and the ensuing pressure on the CPI in Asia – should moderate simply because of the higher base and unlikely repeat (hopefully!) of the disruptive weather. However, structurally, our economics team does expect inflation pressures to build in Asia ex Japan.

Chart 11: CBOE wheat futures



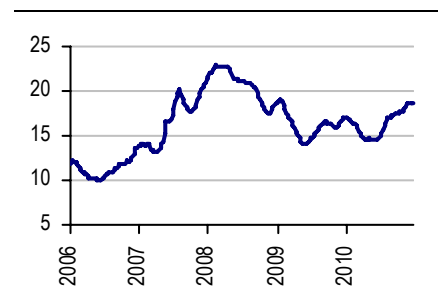
Source: Bloomberg

Chart 12: Sugar spot price (US\$/pound)



Source: Bloomberg

Chart 13: China pork wholesale (Rmb/kg)



Source: Bloomberg

The biggest beneficiaries of higher agricultural commodity prices are expected to be the producers - examples of them include the palm oil plantations and the likes of Yurun in China. On the other hand, processed food manufacturers (food, beverage and tobacco) and restaurants are likely to be negatively affected as food commodities represent a key input cost.

Table 16: Stock clusters affected by higher agricultural commodities prices

	Positive impact	Negative impact
Direct	Crude palm oil plantations	Manufactured food producers
	Food suppliers	Beverage producers
		Restaurants

Source: UBS estimates

Within the UBS coverage, the biggest beneficiaries of higher agricultural commodity prices appear to be the palm oil plantation stocks. Whilst cyclically crude palm oil prices have been pulled up by higher oil prices, Alain Lai, our analyst, believes that there is a strong structural case for higher CPO prices as well given robust demand driven by emerging market consumption, and constrained incremental supply given increasing difficulties in securing land for plantations. He has Buy ratings on the plantation stocks.

Amongst the companies that are likely to be negatively affected, most companies have no or only partial abilities to pass through the cost increases. The A-share listed breweries (Kweichow Moutai, Wuliangye Yibin, Luzhou Laojiao) appear to have the strongest pricing power, according to our analysts. The market appears to share the same assumptions as the cluster stands out as

the companies that have consensus forecast margins in 2011-12 above their previous peak in 2005-10. (Table 19)

Table 17: Stocks likely to be impacted by Agricultural Commodities under UBS coverage

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
<i>Positive impact</i>											
IOI Corporation	Malaysia	Consumer Staples	12.47	14.71	3.08	Alain Lai	Buy	Palm oil price			8% increase in EPS per US\$100/tonne change
KL Kepong	Malaysia	Consumer Staples	7.76	13.95	3.57	Alain Lai	Buy	Palm oil price			10% increase in EPS per US\$100/tonne change
Golden Agri-Resources	Singapore	Consumer Staples	7.39	14.14	1.44	Alain Lai	Buy	Palm oil price			15% increase in EPS per US\$100/tonne change
Indofood Agri Resources	Singapore	Consumer Staples	3.15	11.70	2.03	Alain Lai	Buy	Palm oil price			12% increase in EPS per US\$100/tonne change
<i>Negative impact</i>											
Kweichow Moutai	China	Consumer Staples	24.93	23.19	7.19	Erica Poon Werkun, CFA; Linda Zhao	Buy	Grain	50%	Yes	
Wuliangye Yibin	China	Consumer Staples	18.83	21.43	5.68	Erica Poon Werkun, CFA; Linda Zhao	Buy	Grain	50%	Yes	
Tingyi Cayman Islands	China	Consumer Staples	14.89	238.45	56.80	Christine Peng, CFA; Erica Poon Werkun, CFA	Buy	PET resin, palm oil, sugar, wheat, soybean oil, juice concentrate	51%	Partial	
Want Want China Holdings	China	Consumer Staples	11.08	192.78	69.09	Christine Peng, CFA; Erica Poon Werkun, CFA	Neutral	Palm oil, sugar, raw milk powder, rice, soybean oil	34%	Partial	
Luzhou Laojiao	China	Consumer Staples	8.27	26.39	11.67	Erica Poon Werkun, CFA; Linda Zhao	Neutral	Grain	50%	Yes	
Tsingtao Brewery	China	Consumer Staples	6.75	29.22	4.46	Christine Peng, CFA; Erica Poon Werkun, CFA	Neutral	Malting barley, rice	21%	Partial	
Tsingtao Brewery - A	China	Consumer Staples	6.61	20.39	3.76	Erica Poon Werkun, CFA; Linda Zhao	Neutral	Malting barley, rice	21%	Partial	
Uni-President Enterprises	Taiwan	Consumer Staples	6.16	14.52	2.11	Ally Chen; Ko-chin Tsuei	Buy	PET, Sugar, wheat, palm oil	40%	No	It is very difficult to raise ASP due to strong competition. Scale economy benefits might ease the earning erosion pressure a bit. Overall, the company need to absorb all the rising feedstock costs.

Name	Country	Sector	Market Cap (USD, bn)	PE 11e	PB 11e	Analyst	Rating	Commodity	% of cost (rough #s)	Effective pass-thru? (Yes/No/Partial)	Analyst comment
Thai Beverage	Thailand	Consumer Staples	5.55	0.58	0.12	Salinee Poopoksakul	Buy	Molasses / Sugar	up to 8%	No	TBEV produces sugar and molasse itself (by own sugar mill). Only indirect impact would be felt i.e. if sugarcane price increases with sugar prices. Increasing selling prices is difficult as TBEV is in the low-end of the market where consumer purchasing power is weak.
China Yurun Food	China	Consumer Staples	5.10	24.95	3.15	Christine Peng, CFA; Erica Poon Werkun, CFA	Neutral	Corn, soybean		Partial	
Astra Agro Lestari	Indonesia	Consumer Staples	4.34	9.93	3.32	Bonny Setiawan	Buy	Fertiliser	40%	No	Upstream palm-oil companies do not have the ability to pass on cost of inputs rather rely on CPO price rise to improve revenue hence earnings
Inner Mongolia Yili Industrial	China	Consumer Staples	4.24	24.31	5.22	Erica Poon Werkun, CFA; Linda Zhao	Buy	Raw milk; raw milk powder	50%	Partial	
China Mengniu Dairy	China	Consumer Staples	3.95	19.18	2.37	Christine Peng, CFA; Erica Poon Werkun, CFA	Buy	Raw milk	42%	Partial	
Beijing Yanjing Brewery	China	Consumer Staples	3.67	21.35	2.43	Erica Poon Werkun, CFA; Linda Zhao	Buy	Malting barley, rice	28%	Partial	
London Sumatra Indonesia	Indonesia	Consumer Staples	2.17	9.92	2.32	Bonny Setiawan	Buy	Fertiliser	40%	No	Upstream palm-oil companies do not have the ability to pass on cost of inputs rather rely on CPO price rise to improve revenue hence earnings
Uni-President China Holdings	China	Consumer Staples	2.03	30.14	2.34	Christine Peng, CFA; Erica Poon Werkun, CFA; Ally Chen	Neutral	PET resin, palm oil, sugar, wheat, soybean oil, juice concentrate	40%	Partial	
Thai Union Frozen Products	Thailand	Consumer Staples	1.60	10.30	2.23	Salinee Poopoksakul	Buy	Tuna, Vegetable Oil, Tin (for can)	60%	Partial	The biggest impact would be from tuna prices (60% of COGS) but tuna prices mostly depends on catching conditions. TUF operates its own can factory to supply for the group and vegetable oil and seasoning accounts for just 3% of COGS.
Yashili International	China	Consumer Staples	1.28	14.65	2.29	Christine Peng, CFA; Erica Poon Werkun, CFA	Buy	Raw milk powder	45%	Partial	
China Huiyuan Juice Group	China	Consumer Staples	1.01	27.20	1.53	Erica Poon Werkun, CFA	Sell	OJ concentrate; Suger; PET	70%	Partial	

Source: UBS estimates

Screening for anomalies

Section 1 above gives us a ‘map’ of which Asian stocks are affected by the individual commodities. What we are most interested in, however, is whether these are already priced in. We look at this via three screens: on recent price momentum, consensus margin forecasts and valuation. The stocks we want to seek out are, for instances, commodity beneficiaries that have lagged the market, for which the forecast margins are running below periods of comparable commodity prices and are trading at reasonable valuations.

Screen 1: Price momentum

We start with a very simple screen of share price momentum. In Table 18, we show the best and worst performing stocks in the past 6 months, grouped by whether they are positively or negatively affected by price moves in a commodity. We are interested in two types of anomalies: stock prices that have moved the opposite way from how commodity prices should affect them; and stocks with similar sensitivities to commodity prices that have divergent share price moves.

A few groups stand out. Within the Oil category, the Indonesian E&P companies (Medco Energi and Energi Mega Persada) have lagged their regional peers despite being beneficiaries of higher prices. The Taiwan Transport stocks have been top performers and have outperformed their sector peers, despite being highly sensitive to the oil price and their relatively high price-to-book valuations, compared with their own history.

Cement companies in China have 40% of their raw materials costs in coal, yet they are amongst the best performers in the last 6 months. Cement supply has been disrupted by electricity shortages in China in H2 2010, and demand has continued to be robust, thereby allowing the cement producers to pass on cost. As the Chinese government is restricting construction of new capacity, Mick Mi, our analyst, believes that pricing power is sustainable. CNBM is a UBS Key Call.

Amongst companies negatively impacted by steel, the Korean shipbuilders (DSME and Hyundai Heavy Industries) have performed very well. Yong Suk, our analyst, has highlighted in his comments that rising steel cost could pose earnings risk to the sector.

The Chinese railway rolling stock manufacturers (CSR and CNR) seem to have been barely affected by higher commodity prices, and their share prices have appreciated by more than 50% over the past 6 months. Steel, aluminium and copper together account for 80% of their costs, and they have limited pricing power as their prices are effectively set by the Ministry of Rail (MOR) in China. Richard Wei, our analyst, is sanguine about margin pressure as he believes that the MOR is keen to develop the companies into global competitors and will try to protect their profitability.

Indonesian E&P stocks have underperformed their peers; Taiwan Transport stocks have outperformed

Chinese cement companies have performed well despite coal price increases due to strong pricing power

Higher steel cost could pose earnings risk to the Korean shipyards

Chinese rolling stock manufacturers have outperformed even though 80% of their costs come from steel, aluminium and copper

Table 18: Top and bottom performing stocks in the last 6 months that are affected by commodity prices

	Oil		Coal		Steel		Copper		Aluminium		Agriculture		Cotton		Rubber	
	Stock	-6m perf	Stock	-6m perf	Stock	-6m perf	Stock	-6m perf	Stock	-6m perf	Stock	-6m perf	Stock	-6m perf	Stock	-6m perf
Top 5 beneficiaries	China Oilfield Services - A	90.55	Bumi Resources	84.21	Dongkuk Steel Mill	35.37	Jiangxi Copper	68.71	Hindalco Industries	54.45	KL Kepong Golden Agri-Resources	38.71	Far Eastern New Century	43.67		
	China Oilfield Services	81.86	Yanzhou Coal Mining	58.46	Hyundai Steel	31.12			Chalco	25.00	Indofood Agri Resources	31.03	Grasim Industries	34.02		
	Thai Oil	78.70	Yanzhou Coal Mining - A	49.25	Jai Balaji Industries	-3.01			Jiaozuo Aluminum	2.18		22.17				
	S-Oil	68.61	Straits Asia Banpu Public Company	42.71												
	SK Energy	60.52		36.18												
Bottom 5 beneficiaries	PetroChina	28.57	Adaro Energy	30.00	Baosteel	6.46			Sterlite Industries	9.57	IOI Corporation	17.59				
	Cairn India	10.34	Hidili China Coal Energy	21.51	POSCO	-4.33			Chalco - A	6.04						
	Medco Energi Internasional	5.88	China Shenhua Energy	18.43	Wuhan Steel	-5.73			Chalco	-12.00						
	Energi Mega Persada	0.87	China Shenhua Energy - A	17.30												
Top 5 negatively impacted			Huaxin Cement - A	69.21	DSME	118.56	CSR Corp	79.17	CSR Corp	79.17	Kweichow Moutai	35.83	Shanghai Metersbonwe	65.28	Tata Motors Ltd.	46.90
	AirAsia	118.25	Anhui Conch Cement - A	57.77	Hyundai Heavy Industries	102.43	Harbin Power Equipment	73.36	China CNR	63.01	Luzhou Laojiao Uni-President Enterprises	34.99	Li & Fung	36.64	Cheng Shin Rubber Ind	13.40
	EVA Air	66.06	Aboitiz Power	47.01	Sinoma Int Engineering	97.49	CSR Corp - A	62.17	CSR Corp - A	62.17		34.87	Giordano	33.70	Hankook Tire	11.80
	Yang Ming Marine	56.06	CNBM Dongkuk Steel Mill	46.29	SANY Heavy Industry	89.58					Wuliangye Yibin Thai Union Frozen Products	34.72				
	Thai Airways	43.75		35.37	Daelim Ind Co.	83.79						27.03				
Bottom 5 negatively impacted	Bharat Petro. Corp	-8.78	Huadian Power Int'l	-10.56			XJ Electric	19.04	Hero Honda Ltd.	-9.77	Want Want China Holdings	3.21	Anta Sports Products	-12.74	Maruti Suzuki India	-6.60
	Anta Sports Products	-12.74	Datang Int'l Power	-16.27	China High Speed GMR	-23.68	Henan Pinggao Electric	18.25	Ashok Leyland China	-17.84	Beijing Yanjing Brewery	1.73	Esprit	-14.35	Hero Honda Ltd.	-9.77
	Indian Oil Corp.	-15.46	China Res. Power	-17.17	Infrastructure	-33.22	Shanghai Electric Grp - A	16.41	Zhongwang	-18.34	China Holdings	-2.07	Li Ning	-41.38	-	-
	Hindustan Petroleum	-17.66	Tenaga Nasional	-24.88	Nagarjuna Construction	-36.28					China Huiyuan Juice Group	-2.82			Ashok Leyland	17.84
	Li Ning	-41.38	Welspun Corp	-39.81	IVRCL	-46.76					China Mengniu Dairy	-				

Source: UBS estimates

National Aluminium in India has lagged behind Hindalco and Sterlite, its listed peers. The underperformance seems large even though both Hindalco and Sterlite have exposure to copper, the price for which has gone up more sharply than aluminium during the last 6 months.

National Aluminium has lagged Hindalco and Sterlite

The A-share listed Chinese breweries (Kweichow Moutai, Luzhou Laojiao and Wuliangye) have been amongst the top performers within the Agriculture category, though they are affected by grain prices. IOI Corporation is a laggard amongst beneficiaries of higher crude palm oil prices, but Alain Lai, our analyst, also highlights that its earnings are also the least sensitive to CPO prices amongst Malaysian plantations.

A-share breweries have outperformed their peers

Lastly, Shanghai Metersbonwe and Giordano, the Hong Kong and China clothing retailers, stand out as significant outperformers of their respective markets. They are not directly affected by higher cotton prices as retailers, not manufacturers, though the high level of volatility around cotton prices (+75% in the last six months) as well as its historic high level in absolute terms (more than double its long-term average in 2000-10, see Chart 10) could imply some impact in the next few months, as the cost increases work through the supply chain.

Shanghai Metersbonwe and Giordano have performed well despite record high cotton prices

Screen 2: Profit margin

We also look at consensus forecast margins and see if they are realistic. What we are interested in are anomalies: stocks which have forecast margins moving in the opposite direction of how they are supposed to be affected by higher commodity prices, according to our analysts. For instance, a stock that is negatively affected by higher commodity prices should have lower forecast margins than history. If the consensus forecasts indicate a higher margin, this would imply that the company can pass on the cost increases or that consensus is too optimistic.

Specifically, we look for these stocks by comparing their 2011-12 average EBIT margins with what they had achieved in 2005-10. We exclude the margin data during 2008 and 2009 because they are likely to be distorted by the extraordinary swing in the inventory cycle. We include only stocks that have margin data available going back to at least 2007.

Companies with pricing power / overly optimistic forecasts

In Table 19, we show the stocks that should in theory be adversely affected by higher commodity prices; yet they have average forecast margins that are above the peak achieved during 2005-10. We rank them by the gap between the 2011-12 EBIT margin and the 2005-10 peak.

Table 19: Companies with pricing power – stocks that are adversely impacted by higher commodity prices, but have higher forecast profit margins than the historical peak

Company	Country	Industry group	Free float mkt cap (US\$m)										2011-12E	2005-10 average	2005-10 max	2011-12 average
				2005	2006	2007	2008	2009	2010	2011	2012	average margin	margin (excl. 2008-09)	margin (excl. 2008-09)	minus 2005-10 max margin	
LAFARGE MALAYAN CEMENT	MY	Materials	641	3%	11%	15%	17%	18%	16%	19%	20%	19.8%	11.4%	15.8%	4.0%	
KWEICHOW MOUTAI 'A'	CN	Food Beverage & Tobacco	9,812	56%	57%	62%	65%	61%	61%	66%	65%	65.9%	59.0%	62.5%	3.4%	
HOLCIM INDONESIA	ID	Materials	373	-3%	12%	7%	11%	29%	23%	25%	27%	26.0%	9.8%	22.9%	3.1%	
LUZHOU LAO JIAO 'A'	CN	Food Beverage & Tobacco	3,813		29%	39%	46%	52%	44%	45%	49%	46.9%	37.5%	44.1%	2.8%	
THAI UNION FROZEN PRDS.	TH	Food Beverage & Tobacco	998	6%	6%	5%	5%	7%	7%	9%	9%	9.1%	5.7%	6.7%	2.4%	
PORTS DESIGN	CN	Consumer Durables & Apparel	910	21%	27%	29%	32%	34%	34%	35%	37%	35.7%	27.8%	33.9%	1.8%	
DAPHNE INTL.HOLDINGS	CN	Consumer Durables & Apparel	865	12%	13%	14%	13%	15%	15%	16%	17%	16.7%	13.6%	14.9%	1.7%	
TAIWAN CEMENT	TW	Materials	4,100	18%	18%	20%	11%	16%	49%	51%		51.0%	26.4%	49.4%	1.5%	
ICT.TUNGGAL PRAKARSA	ID	Materials	2,471	24%	19%	22%	25%	36%	37%	38%	38%	38.3%	25.4%	36.9%	1.4%	
BEIJING YANJING BREW.'A'	CN	Food Beverage & Tobacco	3,342	9%	9%	9%	11%	12%	12%	13%	14%	13.2%	9.8%	12.2%	1.0%	
GMR INFRASTRUCTURE	IN	Utilities	1,201	25%	27%	21%	19%	81%	21%	25%	30%	27.9%	23.5%	26.9%	1.0%	
CHINA SHIP.CTNR.LIN.'A'	CN	Transportation	1,822		5%	11%	1%	-32%	13%	13%	14%	13.5%	9.7%	12.6%	0.9%	
HANKOOK TIRE	KR	Automobiles & Components	2,795	12%	9%	12%	10%	12%	13%	14%	14%	14.1%	11.4%	13.3%	0.8%	
SINOMA INTL.ENGR.'A'	CN	Capital Goods	1,744		4%	5%	5%	5%	7%	8%	8%	8.0%	5.3%	7.2%	0.8%	
WULIANGYE YIBIN 'A'	CN	Food Beverage & Tobacco	8,499	21%	26%	32%	32%	43%	44%	44%	44%	44.3%	30.7%	43.6%	0.7%	
KIA MOTORS	KR	Automobiles & Components	13,261	0%	-1%	0%	2%	6%	7%	8%	8%	7.9%	1.6%	7.1%	0.7%	
SEMEN GRESIK	ID	Materials	3,235	21%	23%	27%	29%	33%	31%	31%	32%	31.6%	25.5%	30.9%	0.7%	
HYUNDAI MOBIS	KR	Automobiles & Components	16,738	10%	10%	10%	13%	13%	13%	14%	14%	13.8%	10.8%	13.1%	0.6%	
KOREA ELECTRIC POWER	KR	Utilities	7,334	5%	5%	1%	-12%	-2%	-2%	3%	8%	5.8%	2.2%	5.3%	0.5%	
TSINGTAO BREWERY 'H'	CN	Food Beverage & Tobacco	1,569	6%	6%	8%	8%	10%	11%	11%	11%	11.2%	7.5%	10.9%	0.3%	
CHZOML.HDY.SCTC.DEV.'A'	CN	Capital Goods	6,904	11%	12%	16%	16%	15%	17%	17%	17%	17.4%	14.0%	17.1%	0.3%	
INNER MONGOLIA YILI INDL.GP.'A'	CN	Food Beverage & Tobacco	3,947	4%	4%	0%	-9%	3%	4%	4%	5%	4.4%	2.9%	4.2%	0.2%	
CNBM 'H'	CN	Capital Goods	999		7%	9%	9%	9%	11%	11%	11%	11.0%	9.1%	10.8%	0.2%	
HYUNDAI STEEL	KR	Materials	5,933	10%	11%	9%	13%	7%	10%	11%	12%	11.1%	9.9%	10.9%	0.2%	
HALLA CLIMATE CONTROL	KR	Automobiles & Components	472	6%	5%	5%	6%	5%	6%	6%	7%	6.5%	5.5%	6.3%	0.1%	
GIORDANO INTL.	HK	Retailing	730	12%	9%	8%	8%	8%	13%	13%	13%	12.6%	10.6%	12.5%	0.1%	
LI & FUNG	HK	Retailing	17,673	4%	4%	4%	3%	4%	4%	4%	4%	4.5%	4.0%	4.4%	0.1%	

Source: UBS estimates

Consumer companies – in particular, Food, Beverage & Tobacco – stand out as the biggest group from this screen. Five of them are breweries listed on the A-share market in China. As a group, they should be affected by higher grain and other food commodities cost, though it appears that the market has assumed that they could more than pass on the cost increases. The biggest concentration of the consumer companies are in China, which suggests generally high confidence in pricing power for the sector.

Outside of Consumer, another group for which the market appears to have assumed strong pricing power is Cement. Coal is the biggest input cost for cement, although cement pricing tends to be determined by local supply and demand, and demand appears to be strong across the region, according to our analysts. Still, for companies such as Lafarge Malaysia, Holcim Indonesia, Tungal Prakarsa and Taiwan Cement, consensus forecast margins are substantially above the 2005-10 peak, which are themselves significantly above the averages during the period. This would imply very strong pricing power.

Korean Auto is another group that features in the screen, although it appears to be the result of substantial market share gains and stronger brands over the last several years. Young Chang, our analyst, is confident that the market share gains will continue, which should support the profit margins.

Companies with weak pricing power / overly pessimistic forecasts

In Table 20, we screen for the reverse of Table 19 above. We look for stocks that should be beneficiaries of higher commodity prices, and yet have forecast margins below their 2005-10 trough (excluding 2008 and 2009). We rank them by the gap between their average forecast margin versus the historical trough.

Table 20: Companies with weak pricing power – stocks that are beneficiaries of higher commodity prices, but have lower forecast profit margins than the historical trough

Company	Country	Industry group	FF mkt cap (US\$m)	2005	2006	2007	2008	2009	2010	2011	2012	2011-12 avg margin	2005-10 avg margin (excl. 08-09)	2005-10 min margin (excl. 08-09)	2011-12 avg minus 2005-10 min margin
CNOOC	CN	Energy	38,366	54%	52%	50%	46%	39%	40%	39%	38%	38.5%	49.0%	40.4%	-2.0%
JIAOZU WANGFANG ALUM. 'A'	CN	Materials	1,025		11%	22%	9%	7%	7%	6%	5%	5.4%	13.2%	6.5%	-1.2%
CHINA SHENHUA EN.CO.'H'	CN	Energy	14,870	50%	44%	42%	38%	39%	40%	39%	39%	38.9%	43.9%	39.7%	-0.8%

Source: Datastream, UBS estimates

This screen yields a much smaller group of companies: essentially the big state-owned China resources stocks. The lower margin for CNOOC, an upstream oil producer, is a function of rising production cost as well as the government 'windfall' tax, the rate for which increases with the oil price. Even as the per barrel dollar margin for CNOOC increase with higher oil prices, its percentage margin did not expanded due to the higher base numbers for both revenues and cost.

For PetroChina and Shenhua, concerns over government efforts to keep coal and oil product prices under control appear to be factors affecting the margin forecasts. Nonetheless, the margins appear low.

Screen 3: Relative valuation

Our final screen looks for valuation anomalies: we are interested in stocks that should be beneficiaries of higher commodity prices and are trading at low multiples relative to history, and vice versa. As our valuation benchmark, we compare the price-to-book ratios versus the market (MSCI Asia ex Japan index), versus the historical average market-relative PB. We limit our universe to stocks that have more than US\$1 billion in free float market cap.

Table 20 shows the 10 most expensive stocks based on our metric that are negatively affected by higher commodity prices.

Table 20: Top 10 stocks that are negatively affected by higher commodity prices and have the highest market-relative PB compared with history

Company	Country	Industry group	Commodities that affect the company	Free float mkt cap (US\$m)	Current PB	Historical average PB	Current / Average
Kia Motors	KR	Automobiles & Components	Steel	13,261	1.42	0.61	2.34
Tingyi Cayman Island	CN	Food Beverage & Tobacco	Grain, Palm oil, other agricultural comm.	5,048	4.31	1.86	2.31
Dongfang Electric	CN	NA	Steel, Copper	1,465	3.14	1.46	2.15
Tata Motors Ltd.	IN	Capital Goods	Steel, Rubber, Aluminium	8,009	3.51	1.66	2.12
SANY Heavy Industry	CN	Capital Goods	Steel	12,283	5.28	2.62	2.02
Hyundai Steel	KR	Materials	Coking coal, Iron ore	5,933	0.71	0.36	2.00
Tsingtao Brewery	CN	Food Beverage & Tobacco	Malting barley, Rice	1,569	2.32	1.21	1.92
EVA Air	TW	Transportation	Oil	2,119	1.28	0.70	1.84
Hengan International Group	CN	Household & Personal Products	Oil	6,928	3.51	1.98	1.77
Asian Paints Ltd.	IN	Materials	Oil	4,795	6.50	3.69	1.76

Source: UBS estimates

The mix of stocks is very diverse, so are their absolute PB valuations. Chinese Consumer stocks account for 3 of the 10 stocks (Tingyi, Tsingtao and Hengan), though aside from Tsingtao there is no overlap with the stocks on the previous screen that shows stocks with consensus forecast margins higher than their historical average.

Dongfang Electric and SANY are valued at substantially higher market-relative PB multiples than history, as well as high absolute PB multiples. SANY looks less vulnerable as a coal mining equipment producer, as it should be benefit indirectly from higher coal prices whilst negatively affected by higher steel cost. Patrick Dai, our analyst, is optimistic on the heavy industrial equipment outlook in China and has Buy ratings for both stocks.

Top-down, we are the most concerned about EVA Airways. It has very high earnings sensitivity to the fuel prices and, whilst current demand is strong,

pricing power rarely stays with airlines. At historically high valuations relative to market, the stock looks vulnerable.

Table 21: Top 10 stocks that are beneficiaries of higher commodity prices and have the lowest market-relative PB compared with history

Company	Country	Industry group	Commodities that affect the company	Free float mkt cap (US\$m)	Current PB	Historical average PB	Current / Average
G-Resources	HK	Software & Services	Gold	1,010	0.78	11.04	0.07
Fushan International Energy	CN	Materials	Coal	2,356	0.84	5.85	0.14
China Coal Energy	CN	Energy	Coal	6,027	0.97	1.48	0.65
Aluminum Corporation of China	CN	Materials	Aluminium	2,775	0.80	1.02	0.78
Indofood S.M.	ID	Food Beverage & Tobacco	Crude palm oil	2,419	1.75	2.22	0.79
Bumi Resources	ID	Energy	Coal	7,573	1.86	2.27	0.82
China Shenhua Energy	CN	Energy	Coal	14,870	1.51	1.81	0.83
SembCorp Industries Ltd	SG	Capital Goods	Oil (indirectly via demand for rigs)	3,667	1.20	1.34	0.90
PetroChina	CN	Energy	Oil and refined products	24,744	0.91	0.98	0.92
Nan Ya Plastics	TW	Materials	Petrochemicals	12,508	1.06	1.13	0.93

Source: UBS estimates

In Table 21 above, we show the reverse of Table 20: the 10 'cheapest' stocks that benefit from higher commodity prices.

The biggest group is coal companies in China. This is in sharp contrast with 2007-08, when rising coal prices drove up their valuations. It appears that the market is concerned about the efforts by the Chinese government to control inflation and by extension the coal price, notwithstanding the disruptions in coal production in Australia.

PetroChina's valuation seems to be held back by the same concerns, as the vertically integrated nature of the company means it may not benefit from higher oil prices unless oil product prices also rise in China.

Indofood looks like a potentially cheap beneficiary of higher oil prices. Its profits are geared to crude palm oil (CPO) prices, which tend to be correlated with the oil price (though lately CPO has been trading at the high end of its historical range versus the oil price). Our analyst, Alain Lai, believes there are structural constraints to new supply (suitable land for new plantations is increasingly difficult to find) whilst demand should continue to be robust, driven by higher spending on food globally. Valuation looks attractive in this light, in our view.

Combining the three screens

Now that we have presented the stock screen from three different angles, our final section combines the results of all three to see if there are stocks that show up as anomalies in all of them. In other words, we are interested in commodity beneficiaries that are bottom performers, have low forecast margins relative to history and are valued at lower market-relative PB than their historical average.

Those could be interesting stocks to own. The same goes for stocks that are negatively affected by higher commodity prices, under the reversed parameters.

We present our results in Tables 22-23. First, we show the likely beneficiaries from higher commodity prices that are anomalies in two or more of our three screens.

Table 22: Stocks that are likely beneficiaries of higher commodity prices, and show up as anomalies in two or more of our screens

	Positively Impacted and Cheap	Positively Impacted and Low Margins	Positively Impacted and Underperformed	Total Score
China Shenhua En.Co.'H'	1	1	1	3
China Coal Energy	1	0	1	2
Petrochina	1	0	1	2

Source: UBS estimates

China Shenhua - H shows up as attractive in all three of our screens. It is one of the worst performers amongst beneficiaries of higher coal prices, its forecast margins are below the trough levels back in 2005-10, and its market-relative PB is below its historical average. PetroChina also looks to be attractive as an underperformer with low margins for the H shares, and low valuation for the A shares.

Table 23: Stocks that could be negatively affected by higher commodity prices, and show up as anomalies in two or more of our screens

	Negatively Impacted and Expensive	Negatively Impacted and High Margins	Negatively Impacted and Outperformed	Total Score
China National Mats.'H'	0	1	1	2
Eva Air	1	0	1	2
Giordano Intl.	0	1	1	2
Hankook Tire	0	1	1	2
Hyundai Steel	1	1	0	2
Kia Motors	1	1	0	2
Li & Fung	0	1	1	2
Luzhou Lao Jiao 'A'	0	1	1	2
Sany Heavy Industry	1	0	1	2
Sinoma Intl.Engr.'A'	0	1	1	2
Tata Motors Ltd.	1	0	1	2
Thai Union Frozen Prds.	0	1	1	2
Tsingtao Brewery 'H'	1	1	0	2

Source: UBS estimates

Amongst the stocks that could be negatively affected by higher commodity prices, there aren't any stocks that show up as anomalies in all three screens but a number of them show up in two screens. EVA Air and Giordano, to our minds, look the most vulnerable. Both have performed well in the last 6 months. The average consensus forecast margin for Giordano in 2011-12 is above the peak it

achieved in 2005-10; for EVA, above the peak during that period except 2010. On a market-relative price-to-book basis, EVA is trading at more than 2x above its historical average. Both stocks are rated Neutral by our analysts (Erica Poon Werkun for Giordano and Eric Lin for EVA Air).

Top down, Li & Fung looks to be another candidate for potential disappointment. As a sourcing agent, it is not directly affected by higher commodities price but its customers and manufacturers will likely face margin pressure. Some US and European clothing and textiles retailers have warned that higher cotton prices could lead to lower margins for that. It seems unlikely that Li & Fung will be immune to the pressure. Spencer Leung, our analyst, has a high conviction Sell call on the stock.

A number of breweries in China appear on Table 19 – all of them have forecast margins higher than their 2005-10 peaks despite being affected by higher grain costs. Consensus seems to be confident in the companies' pricing power, though the high valuation – both absolute and relative – would make us think that this is largely in the price.

CNBM is a UBS Key Call and appears on Table 23 as a stock that has both outperformed in the last 6 months and has consensus forecast margins at a level above its historical peak, thus vulnerable. However, there are structural factors that support pricing power in the sector, namely the government ban for new cement capacity to be built as well as the campaign to build affordable housing. Our analyst, Mick Mi, is confident that cement price increases will more than offset cost pressure from higher coal prices.

Strategy conclusion

In recent weeks, rising commodity prices have become an increasing concern for investors, as many commodities climbed back to above or near their peak prices in 2008. Historically, there has been no consistent relationship between commodities and Asia ex Japan equities performance, and equities tend to perform well with commodities when the economy is strong. We expect it to be no different in the current market.

That said, the impact from higher commodity prices is expected to be felt unevenly by different parts of the market. With the help of our equity research colleagues, we try to identify the impact by commodity in this note. To take this a step further, we look for anomalies where the impact from commodities may not have reflected in the recent share price performances, consensus margin forecasts and/or valuations.

A few stocks appear to us to be anomalies from this exercise. Amongst the beneficiaries of higher commodity prices, China Shenhua and PetroChina look attractive. Amongst stocks that are negatively affected, EVA Air, Giordano and Li & Fung look vulnerable.

Summary of our Strategy View

We remain positive on Asia ex-Japan equities in 2011. Earnings growth forecasts look achievable and valuations are attractive, especially relative to other assets. With liquidity now becoming a tailwind, growth less of a concern and the domestic credit cycle set to improve, we think Asia could re-rate from its current discount to its historical average PE, and potentially even a premium. We upgrade our 2011 year-end MSCI Asia ex-Japan index target to 670 from 650, based on 13.7x forward PE, in line with the long-term average.

Year End Target (11e)

MSCI Asia ex Japan

670

Our key country picks are Singapore and China. We are neutral the G7 proxy markets of Taiwan and Korea. Valuations have moved back toward neutral, and leading indicators have already stabilized. There is less compensation, unless convinced one way or other of external demand (which we are not) for taking an aggressive view on these markets now. We are generally underweight the expensive ASEAN markets. Of which Indonesia with low bond yields, rising inflation and huge foreign ownership look the most vulnerable beyond valuation. At the sector level, we are overweight financials, as the best proxy for the liquidity theme and the credit cycle. We are underweight defensive sectors, expecting them to underperform a rising market.

We believe there is an elevated risk that Asian markets could reach a 'euphoric' state, fuelled by inappropriately loose monetary policy. On the downside, inflation, sharply higher US bond yields and government intervention are risks.

Table 24: Country Sector Weights

Overweight	Neutral	Underweight
China	Hong Kong	Malaysia
Singapore	India	Indonesia
	Taiwan	Philippines
	Korea	
	Thailand	
Financials	Information Tech	Utilities
	Consumer Disc.	Telecom
	Industrial	Consumer Staples
	Energy	Health Care
	Materials	

Source: UBS estimates

Key Calls

What are Key Calls?

Key Calls represent our highest conviction single stock research ideas across the region. The list is designed to generate bottom-up 'alpha' and is not a portfolio that we use to express our top-down view. The key selection criteria are analyst conviction, liquidity (>US\$10m average daily turnover for most stocks) and a strategy overlay in terms of the macro outlook, market positioning and risk management.

Table 25: UBS Key Calls

Company	Rating	Price (LC)	PT (LC)	Upside / Downside	Mkt Cap (US\$ bn)	EPS Growth 11e	PE 11e	P/BV 11E	Comments
LG Display	Buy	37950	49000	29%	12.1	4%	9.54	1.09	The potential panel order from Sony in 2011 should allow LG Display to outperform other LCD stocks. The company is also a beneficiary of growing tablet PC demand.
Bangkok Bank	Buy	164	189	15%	10.2	9%	11.58	1.28	Prime beneficiary of new credit cycle in Thailand. Demand for credit from corporations (over 70% of BBL's loan book) is likely to be the key driver in the 18 months.
Cheung Kong Inf	Buy	36.8	45.5	24%	10.7	43%	12.98	1.74	Well-positioned to acquire assets to improve ROE. Cement business in HK an overlooked generator of EBITDA.
China National Building Material	Buy	18.92	30	59%	6.6	61%	8.93	2.08	Beneficiary of government policy to consolidate supply and dampen property prices via increasing housing supply. H-share placement has alleviated concerns over gearing. EV/ton valuation at historical low.
OCBC	Buy	10	11.3	13%	25.9	4%	13.57	1.73	OCBC should benefit more from the strong liquidity in Singapore via its Wealth Management Business. Private banking has better growth and profitability and thus should help command a valuation premium.
Shriram Transport Finance	Buy	743.1	1000	35%	3.7	30%	11.18	2.88	SHTF Is the only established player in financing for second-hand commercial vehicles in India. It has around 20-25% market share in a market which is expected to grow & and has high barriers to entry.
Lanco Infratech	Buy	53.45	105	96%	2.8	105%	13.67	2.82	Strong execution track record in building power plants underappreciated. New projects could offer Rp35 upside to the current share price
Sun Hung Kai P	Buy	136.1	225.9	66%	44.9	21%	17.61	1.33	A sector leader that command premium pricing (superior profitability); income stream from commercial properties holding underappreciated; large landbank holder and a beneficiary of the credit upcycle in Hong Kong
Industrial & Commercial Bank Of China-H	Buy	5.95	7.7	29%	255.3	11%	11.61	2.22	Strong capital position and provisioning buffer, rising net interest margin and healthy, albeit sequentially slower, loan growth.

Source: UBS (prices as of 20th January 2011)

Table 26: Economics, Country/Sector Performance & Valuation

Country	GDP Growth			CPI			CA (% GDP)			Fiscal (% GDP)			FX Res. 11E (USD bn)	FX Rate 11E
	10E	11E	12E	10E	11E	12E	10E	11E	12E	10E	11E	12E		
China	10.0	9.0	9.0	3.3	4.3	4.0	5.6	5.3	5.0	-2.8	-2.0	-1.5	3178.0	6.2
Hong Kong	6.4	4.3	5.0	2.3	5.0	4.5	6.5	5.0	4.3	0.1	0.4	0.5	268.7	7.8
India*	9.0	8.0	8.6	10.0	6.0	6.8	-2.7	-2.9	-3.0	-5.5	-4.8	-4.1	305.3	44.8
Indonesia	6.0	6.0	5.5	5.1	7.0	7.0	1.1	0.3	0.7	-1.6	-2.0	-2.0	106.1	9500.0
Korea	6.0	3.5	3.8	3.0	2.8	3.1	3.0	1.7	0.6	0.7	0.2	0.2	291.6	1025.0
Malaysia	7.0	4.0	5.0	1.7	2.1	2.2	14.6	14.1	11.9	-5.7	-5.5	-5.3	116.7	3.0
Philippines	7.3	4.4	4.8	3.8	4.2	4.6	5.7	4.5	3.5	-3.9	-3.2	-2.9	67.8	42.0
Singapore	14.8	4.0	5.0	2.8	2.4	2.0	21.0	14.6	12.8	-1.0	0.7	0.7	258.1	1.3
Taiwan	9.9	4.3	4.7	1.0	1.7	1.6	8.3	5.9	7.2	-2.6	-2.3	-2.0	348.2	29.8
Thailand	7.7	4.0	4.5	3.3	2.6	2.9	3.5	3.9	3.9	-1.1	-2.3	-2.1	188.4	30.0

*FY 10e; ** CY 10e

MSCI Country	Index# (%)	Absolute Perf %			Relative Perf %			PE Ratio			PB Ratio			EPS 11E	Growth % 12E
		1m	3m	12m	1m	3m	12m	10E	11E	12E	10E	11E	12E		
China	21.4	2.1	-3.5	8.7	-0.9	-7.7	-10.1	13.5	11.7	9.7	2.1	1.9	1.7	15.1	20.0
Hong Kong	10.7	5.1	5.0	29.6	2.2	0.8	10.8	19.6	17.5	15.5	1.6	1.5	1.5	11.9	13.0
India	14.5	-5.3	-9.5	10.0	-8.2	-13.7	-8.8	18.2	15.1	12.4	2.8	2.5	2.2	20.6	21.9
Indonesia	2.6	-7.4	-10.7	14.6	-10.4	-14.9	-4.2	16.4	12.9	11.5	3.8	3.2	2.8	27.5	12.0
Korea	20.2	6.5	16.1	24.7	3.6	12.0	5.9	12.2	10.8	9.6	1.6	1.4	1.3	13.0	12.3
Malaysia	5.2	7.4	7.3	33.5	4.4	3.1	14.7	17.5	14.1	13.5	2.4	2.1	2.0	24.1	4.7
Philippines	1.2	-1.6	-10.5	21.5	-4.5	-14.6	2.7	17.4	15.4	13.5	1.9	1.8	2.3	13.2	14.3
Singapore	5.0	4.0	1.8	20.9	1.0	-2.4	2.1	17.1	14.3	12.9	1.9	1.8	1.7	19.2	10.6
Taiwan	15.5	5.3	19.1	20.7	2.4	14.9	1.9	16.7	15.1	12.4	2.1	2.0	1.9	11.2	21.7
Thailand	3.8	0.0	0.9	50.3	-3.0	-3.3	31.5	15.9	12.2	10.4	2.3	2.1	1.9	29.7	17.2
MSCI Sector															
Energy	10.1	1.2	6.0	23.9	-1.8	1.8	5.1	13.4	11.2	10.0	2.1	1.9	1.7	18.8	12.8
Materials	8.9	3.5	6.0	15.9	0.6	1.8	-2.8	14.3	11.1	10.3	1.9	1.7	1.6	28.7	8.4
Industrials	11.3	5.0	7.2	29.0	2.1	3.0	10.2	15.4	13.1	11.8	2.0	1.8	1.6	17.9	10.9
Consumer Disc.	7.9	4.2	3.7	39.0	1.3	-0.4	20.2	15.4	12.8	11.9	2.8	2.4	2.2	19.7	7.7
Consumer St.	3.9	-1.4	-5.6	14.4	-4.4	-9.8	-4.4	20.2	17.6	15.3	3.3	2.9	2.7	14.9	15.4
Health Care	0.9	-0.5	-2.6	17.3	-3.4	-6.8	-1.5	26.8	20.2	18.8	4.3	3.6	3.6	32.6	7.5
Financials	30.8	2.3	-0.3	17.5	-0.6	-4.5	-1.3	14.5	12.5	10.0	1.8	1.7	1.5	16.0	24.0
Info. Tech.	17.4	5.4	17.3	15.9	2.5	13.1	-2.9	16.2	16.2	12.4	2.7	2.4	2.2	-0.2	31.0
Telecom	5.3	1.1	-1.8	7.5	-1.9	-6.0	-11.2	13.5	12.4	11.5	1.9	1.8	1.7	9.1	7.8
Utilities	3.5	-1.0	-5.8	3.1	-4.0	-9.9	-15.7	18.6	14.9	12.5	1.5	1.5	1.4	25.3	18.9
Market	100.0	3.0	4.2	18.8				14.9	12.8	10.9	2.1	1.9	1.7	15.9	17.4

Source: UBS Estimates, IBES (as of 20th January close); # free float market caps Note: Numbers in this table are for the MSCI universe of companies using UBS analyst estimates for companies under UBS coverage and consensus numbers for the rest.

■ **Statement of Risk**

Although there are many uncertainties with equity investing, generally economic and policy surprises pose the most consistent and continuous risks. Economic growth can be volatile, leading to earnings uncertainty. Inflation volatility can likewise lead to interest rate uncertainty. The direction and level of policy rates has a substantial impact upon equity valuations.

A good quarter

■ Result exceeds UBS and Street expectation

Net profit of Rs14.4bn (up 30% y/y, 16% q/q) beat expectations due to lower loan loss provisions (LLP). NII of Rs23.1bn (up 12%y/y, 5%q/q) was driven by flat sequential NIM at 2.6% and 15% y/y loan growth. Corporate loans supported loans growth while retail book stayed flat.

■ Improvement in key business parameters

1) CASA remained stable at 44%. 2) Asset quality remained stable during the quarter with zero net addition. Provision coverage improved to 72% from 69% in Q2. 3) Domestic credit grew 7.3% q/q driven by strong credit growth. 4) Cost to income ratio sequentially went up marginally to 42.3% due to bonus payouts during the quarter, 5) Life insurance subs reported Rs5.2 bn accounting profit for 9mFY11.

■ Stable core fee income, falling LLP

Core fee income grew at 14%y/y, 2%q/q. Credit cost declined 54% y/y, 28% q/q to 1%. We believe margins would be under pressure and likely get capped at 2.6% in the near term due to rising cost of funds. We expect credit growth of 18%/22% in FY11/12. We expect credit cost to fall further in FY12 to 70 bps.

■ Valuation: maintain Buy, price target Rs1,400

We increase FY11 earnings by 2% while cutting FY12/FY13 earning by 4%/4% to factor in lower margins and higher operating costs. We believe this is more than factored in the current price. Maintain Buy rating and price target of Rs1,400 (based on sum of the part method).

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	158,551.04	155,920.13	156,798.56	185,705.78	219,943.68
Pre-tax profits	50,994.61	53,426.70	68,707.98	91,407.18	109,683.14
Net income	37,581.32	40,223.30	52,218.06	65,813.17	78,971.86
EPS (UBS, Rs)	33.76	36.10	46.84	59.03	70.83
Net DPS (UBS, Rs)	11.00	12.00	13.00	14.00	15.00

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
ROE %	13.4	8.0	9.8	11.4	12.6
P/Op x	10.3	8.9	13.2	11.2	9.0
P/BVPS x	2.0	1.7	2.2	2.0	1.8
PE (UBS) x	18.0	21.4	23.1	18.4	15.3
Net dividend yield %	1.8	1.6	1.2	1.3	1.4

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,083.90 on 24 Jan 2011 23:38 SGT

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Global Equity Research

India

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12-month rating **Buy**
Unchanged

12m price target **Rs1,400.00/US\$61.44**
Unchanged

Price **Rs1,083.90/US\$46.01 (ADR)**

RIC: ICBK.BO BBG: ICICIBC IB

25 January 2011

Trading data (local/US\$)

52-wk range	Rs1,269.45-788.65/US\$57.65-33.47
Market cap.	Rs1,208bn/US\$25.6bn
Shares o/s	1,115m (ORD)/557m (ADR)
ADR ratio	1 ADR:2 ORD
Free float	99%
Avg. daily volume ('000)	4,753/25
Avg. daily value (m)	Rs5,339.8/US\$1.3

Balance sheet data 03/11E

Common equity	Rs551bn
P/BVPS x	2.2
Tier one capital ratio	13.4%

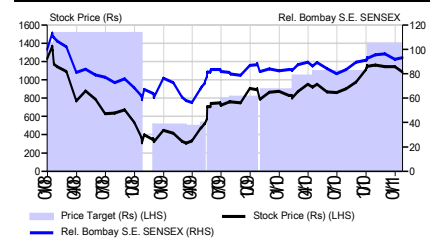
Forecast returns

Forecast price appreciation	+29.2%
Forecast dividend yield	1.3%
Forecast stock return	+30.5%
Market return assumption	13.0%
Forecast excess return	+17.5%

EPS (UBS, Rs)

	03/11E		Cons.	03/10 Actual
	From	To		
Q1	9.16	9.16	-	7.88
Q2	10.39	10.86	-	9.33
Q3	12.73	12.41	12.73	9.88
Q4E	13.79	13.66	13.79	9.02
03/11E	46.11	46.84	46.11	
03/12E	61.21	59.03	61.21	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

Subsidiaries performance review

The consolidated net profit stood at Rs 20.4bn up 78% y/y, 46%q/q. The strong performance primarily came from the Life insurance business where the Insurance regulator has recently allowed it to publish quarterly surplus from non-participating business instead of annual.

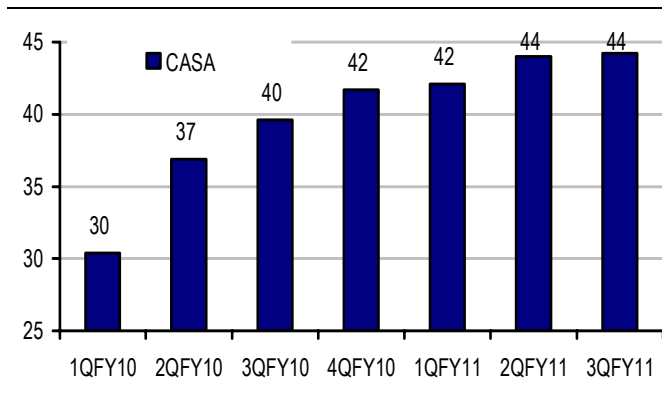
The subsidiaries reported positive earning performance during the quarter.

ICICI Bank UK reported net profit of \$11mn (up 30%q/q). The asset book shrunk 3% q/q during the quarter to \$7bn. Loan book represents 57% of the assets and India Linked Investments were at \$287mn down 36%y/y. Retail deposit represents 75% of total deposits which stood at \$4.6bn. The subsidiaries CAR improved 290bp q/q to 21.2%

ICICI Bank Canada reported 10%y/y net profit growth to CAD8.3mn. Asset book fell 19%y/y and 6%y/y to CAD4.7bn primarily due to run down in the loan book. Loan book fell 9% sequentially to CAD3.1bn. Deposit book stands at CAD2.8bn with demand deposit representing 15% of the book. The subsidiaries CAR stood at 26.1% vs 22.9% in Q2.

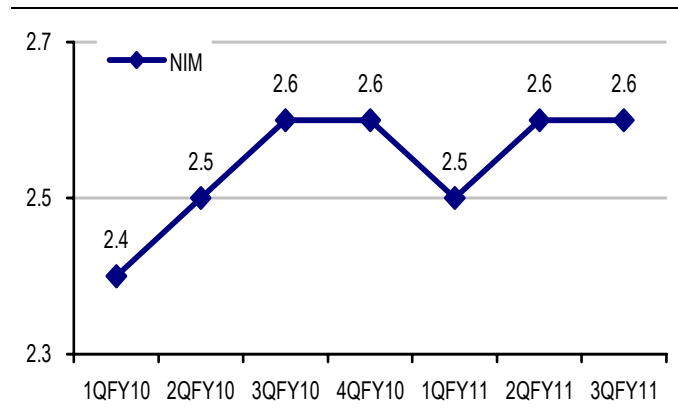
ICICI Life reported negative APE growth of 62%y/y to Rs5.7bn primarily due to adverse policy changes in ULIP vertical effective September 2010. NBAP margin remained flat sequentially at 19%. Company reported expense ratio stood at 8.9% for 9mFY11. ICICI Prulife made net profit of Rs6.1bn (up Rs150mn in Q2 and Rs70mn in Q3FY10) for the quarter. The increase came from transfer of surplus in the non-participating policyholders' funds to the tune of Rs5.2bn. AUM reported growth of 24%y/y and 1%q/q to Rs663bn.

Chart 1: Strong CASA



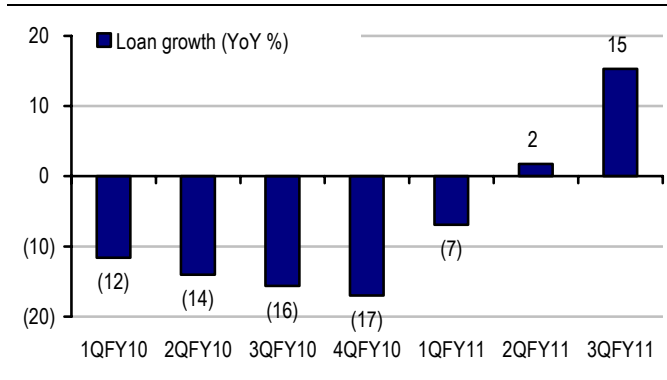
Source: Company data

Chart 2: ...has helped to stabilise NIM



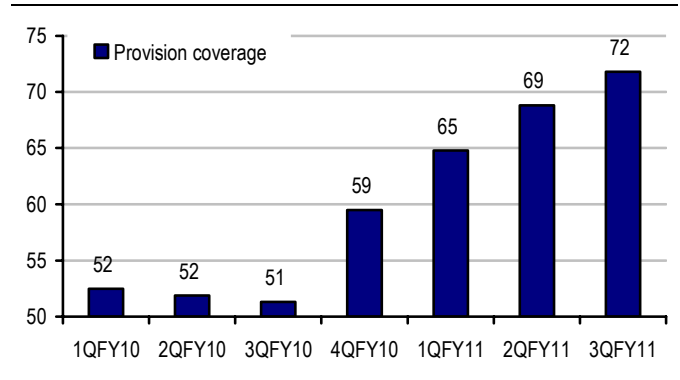
Source: Company data

Chart 3: Strong loan growth



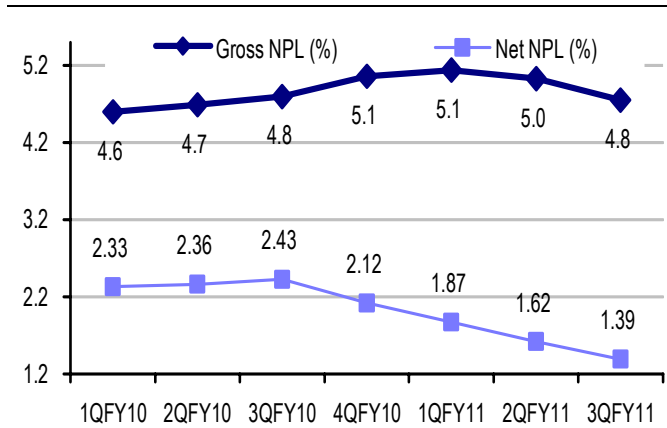
Source: Company data

Chart 4: Coverage ratio has improved



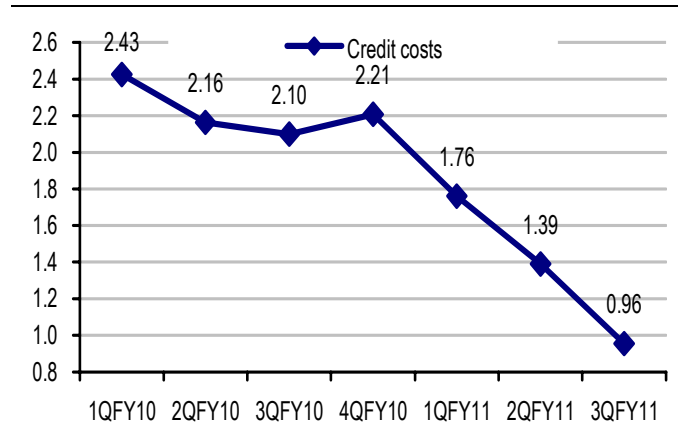
Source: Company data

Chart 5: Improvement in asset quality



Source: Company data

Chart 6: ...leading to decline in credit costs



Source: Company data

Table 1: ICICI bank quarterly earnings summary (Rs mn)

(Rs mn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY growth (%)
Interest income	71,334	66,569	60,896	58,270	58,125	63,091	66,960	10
Interest on advances	50,866	44,930	39,764	38,168	37,785	39,492	41,620	5
Interest on investments	15,761	16,280	16,913	15,709	16,586	19,161	21,212	25
Balance with RBI	4,707	5,359	4,219	4,393	3,755	4,438	4,128	(2)
Interest expenses	51,482	46,209	40,315	37,920	38,215	41,047	43,842	9
Net interest income	19,852	20,361	20,581	20,349	19,911	22,044	23,117	12
yoy growth (%)	(5)	(5)	3	(5)	0	8	12	
NIM (incl. amortization expenses)	2.40	2.50	2.60	2.60	2.50	2.60	2.60	
Total asset growth	(6.8)	(4.8)	(4.9)	(4.2)	(0.9)	6.4	10.3	
Non-interest income	20,900	18,238	16,731	18,908	16,805	15,779	17,488	5
Commission and fees	13,190	13,870	14,220	15,210	14,130	15,900	16,250	14
Investment income	7,140	2,970	(260)	1,960	1,040	(1,440)	210	(181)
Other income	570	1,400	2,771	1,738	1,635	1,319	1,028	
Total income	40,752	38,599	37,312	39,258	36,716	37,823	40,605	9
Total income excluding treasury	33,612	35,629	37,572	37,298	35,676	39,263	40,395	8
Operating expenses	15,460	14,245	13,621	15,269	14,835	15,704	17,179	26
Salary	4,665	4,496	4,270	5,827	5,756	6,243	7,605	78
Other costs	10,520	9,541	9,041	8,984	8,721	9,106	9,170	1
DMA cost	275	209	310	458	358	355	405	31
Preprovision profit	25,292	24,353	23,692	23,989	21,881	22,119	23,426	(1)
Provisions	13,237	10,713	10,022	9,898	7,978	6,411	4,643	(54)
Profit before tax	12,055	13,640	13,670	14,091	13,903	15,708	18,783	37
Tax	3,931	3,239	2,656	4,036	3,643	3,345	4,413	66
Net profit	8,783	10,401	11,014	10,056	10,260	12,363	14,370	30
yoy growth (%)	21	3	(13)	35	17	19	30	
Effective tax rate(%)	27	24	19	29	26	21	23	
PBT-Invt income+NPL provisions	18,152	21,383	23,952	22,029	20,841	23,559	23,216	(3)

Source: Company data

Table 2: ICICI bank quarterly Balance sheet (Rs mn)

(Rs bn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY growth (%)	QoQ growth (%)
Deposits	2,102	1,978	1,977	2,020	2,009	2,231	2,177	10	(2)
Savings	445	493	511	532	565	632	646	26	2
Current	195	236	272	310	281	349	316	16	(9)
CASA ratio (%)	30.4	36.9	39.6	41.7	42.1	44.0	44.2		
Customer assets	2,104	2,081	2,016	2,086	2,169	2,330	2,477	-	6
Advances	1,981	1,909	1,793	1,812	1,844	1,942	2,067	15	6
Retail loans	960	864	807	790	763	777	790	(2)	2
Retail loans to advances (%)	48	45	45	44	41	40	38		(4)
Housing loans	538	492	484	474	473	505	517	7	2
Auto loans	115	95	81	79	76	70	70	(13)	1
Two wheelers	10	9	8	8	15	23	19	135	(19)
Personal loans	77	60	56	47	38	31	25	(55)	(19)
Credit cards	67	59	48	40	38	31	32	(35)	2
Commercial vehicles	134	121	113	126	122	117	126	12	8
Non-retail advances including investments	985	1,217	1,209	1,296	1,406	1,553	1,687	-	9
SME	-	76	72	72	74	78	87	21	12
International lending	515	515	466	453	479	486	504	8	4

Source: Company data

Table 3: Asset Quality (Rs bn)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	YoY growth (%)	QoQ growth (%)
Asset quality details									
Gross NPAs (Rs bn)	97	95	91	96	100	102	102	12	(0)
Gross NPLs to advances (%)	4.6	4.7	4.8	5.1	5.1	5.0	4.8		
Gross NPLs to adv. Lagged	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net NPAs (Rs bn)	46	46	44	39	35	32	29	(35)	(10)
Net NPLs to advances (%)	2.3	2.4	2.4	2.1	1.9	1.6	1.4		
Restructured assets (Rs bn)	41	49	53	53	37	26	26	(52)	(1)
Restructured loans + Gross NPLs	138	143	144	149	137	128	127	(12)	(0)
% of total loans	7.0	7.5	8.0	8.2	7.4	6.6	6.2		
Restructured loans + Net NPLs	87.5	94.2	97.5	92.1	72.5	57.7	54.3	(44)	(6)
% of total loans	4.4	4.9	5.4	5.1	3.9	3.0	2.6		
Gross NPLs in retail (Rs bn)	67	64	60	65	66	68	67	12	(1)
Non collateral loans (Rs bn)	50	37	30	33	34	35	34	12	
NPLs non-collateral loans (%)	35.0	31.2	29.0	38.0	44.3	55.8	60.2		
NPL ratio collateral loans (%)	2.1	3.6	4.2	4.5	4.7	4.7	4.5		

Source: Company data

Table 4: ICICI Bank SOTP

	ICICI Share (%)	Value for 100% entity (Rs mn)	Value for 100% entity (\$ mn)	Value of ICICI Stake (Rs mn)	Value (Rs/per share)	Valuation methodology adopted
Value of ICICI standalone (A)	100	1,161,713	25,255	1,161,713	1,042	Based on residual growth model; implied 18x earnings / 2.5x core book.
Subsidiaries						
ICICI Prudential Life	74	218,123	4,742	161,411	141	16X NBAP+Embedded value
General Insurance	74	35,151	764	26,012	23	PBR of 2X book
Mutual Fund	51	32,540	707	16,595	14	PER of 20X EPS
ICICI Securities and PD	100	39,750	864	39,750	35	PER of 15X EPS
ICICI Homes Ltd	100	18,108	394	18,108	16	PBR of 1.25X book
ICICI Bank UK	100	40,875	889	40,875	36	PBR of 1.25X book
ICICI Bank Canada	100	61,186	1,330	61,186	53	PBR of 1.25X book
Venture capital/MF	100	13,800	300	13,800	12	15% of current AUM estimated at US\$2.0bn
Others		12,079	263	12,079	11	
Value of subsidiaries (B)		471,613	10,252	389,817	339	
Value of company (A+B)		1,633,326	35,507	1,551,530	1,381	

Source: UBS estimates

Table 5: Recent Publications

	Recent Reports	Analyst
21-Jan	First Read: Korea Banks: Will the limit on spread be enacted?	Scott Lee
21-Jan	Hong Kong Financials: Rmb internationalisation: risks vs rewards	Stephen Andrews, CFA
21-Jan	China Banks: CBRC issues more bank/trust measures	Sarah Wu
20-Jan	Bank Tabungan Negara: A compelling mortgage franchise (Buy)	Joshua Tanja, CFA
20-Jan	First Read: Citic Bank: Positive profit alert (Neutral)	Sarah Wu
20-Jan	Kasikornbank: Another year of good performance (Buy)	Butsakon Khoosuwan
20-Jan	First Read: Citic Bank: 2011 GCC takeaways (Neutral)	Sarah Wu
20-Jan	Key Call: ICBC: 2011 GCC takeaways (Buy)	Sarah Wu
19-Jan	Asian Financials: Asian financials - when does good inflation turn into bad inflation?	Andy Brown, CFA
19-Jan	LIC Housing Finance: Margins surprise (Sell)	Ajitesh Nair
19-Jan	Siam Commercial Bank: Stronger growth platform (Buy)	Butsakon Khoosuwan
19-Jan	Taiwan Financial: Nan Shan Life: follow-up questions	Pandora Lee
19-Jan	First Read: CMB: 2011 GCC takeaways (Neutral)	Sarah Wu
19-Jan	First Read: BCOM: 2011 GCC takeaways (Neutral)	Sarah Wu
18-Jan	Busan Bank: Solid Q410 results despite lower earnings (Buy)	Scott Lee
18-Jan	Singapore Exchange: Q2 earnings in line with expectations (Buy)	Jaj Singh
17-Jan	First Read: India Banking & Finance Sector: RBI mandates standard asset provisioning	Ajitesh Nair
17-Jan	Power Finance: Spreads hold up; growth steady (Buy)	Ajitesh Nair
17-Jan	AXIS Bank: Strong show (Buy)	Vishal Goyal, CFA
17-Jan	First Read: GTJA International: 2011 GCC takeaways (Buy)	Noel Chan
14-Jan	Singapore Banks: Buyers in the face of property measures	Jaj Singh
13-Jan	China Minsheng Banking: Structure of capital raising disappointing (Neutral)	Sarah Wu
13-Jan	Chinatrust Financial Holding: Overhang removed; upgrade to Buy (Buy)	Pandora Lee
13-Jan	AMMB Holdings: NDR takeaway: upbeat outlook (Buy)	Khairul Rifaie
13-Jan	Malayan Banking: NDR takeaway: slightly positive on KimEng (Buy)	Khairul Rifaie
13-Jan	First Read: Korea Banks: View 25 bps rate hike as another catalyst	Scott Lee
13-Jan	First Read: Korea Banks: NPS will be allowed to buy more bank stocks - a catalyst	Scott Lee
12-Jan	Korea Banks: Q410 previews - solid with higher margins and improving asset quality	Scott Lee
12-Jan	Taiwan Financial: Nan Shan Life: Seemingly a good deal	Pandora Lee
12-Jan	First Read: Taiwan Financial: Nan Shan goes to Ruentex/Pou Chen JV?	Pandora Lee
11-Jan	India Banking & Finance Sector: Liquidity pangs	Ajitesh Nair
11-Jan	TISCO Financial Group: Record high ROE is hard to sustain (Buy)	Butsakon Khoosuwan
11-Jan	Taiwan Financial Sector: Q4 mostly down Q0Q; 2010 mostly up YoY	Pandora Lee
10-Jan	China Banks: How will differentiated reserves impact the banks?	Sarah Wu
10-Jan	First Read: Fubon FHC: Fubon announced to privatize Fubon HK (Neutral)	Pandora Lee
10-Jan	Hong Kong and Singapore Banks: A tale of two cities: HK and Singapore	Stephen Andrews, CFA/Jaj Singh
6-Jan	Malayan Banking: The tiger broadens its ASEAN footprint (Buy)	Khairul Rifaie
6-Jan	Chongqing Rural Commercial Bank: Right place, right time; initiate with Buy (Buy)	Steve Ho
6-Jan	First Read: Yuanta FHC: More ammunition for M&As, but... (Buy)	Pandora Lee
6-Jan	First Read: Korea Banks: Troubled savings banks are hanging over	Scott Lee
5-Jan	Singapore Banks: Steeper yield curve	Jaj Singh
5-Jan	Taiwan Financial: Exposure to Powerchip	Pandora Lee
4-Jan	Taiwan Financial: NT dollar's relative strength implies higher hedging risk	Pandora Lee
3-Jan	Hong Kong Banks: IPO impact unwinds, loans & deposits fall	Stephen Andrews, CFA
3-Jan	First Read: Korea Banks: IBK and Hana are our 2011 top Buys	Scott Lee
15-Dec	Kasikornbank: Expanding Japanese customer base (Buy)	Butsakon Khoosuwan

Source: UBS

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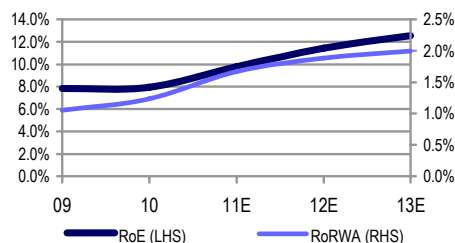
ICICI Bank

Per share (Rs)	3/09	3/10	3/11E	3/12E	3/13E
EPS (stated)	33.76	36.10	46.84	59.03	70.83
EPS (UBS adjusted)	33.76	36.10	46.84	59.03	70.83
GOPS	79.13	87.29	82.15	96.83	120.35
DPS	11.00	12.00	13.00	14.00	15.00
BVPS (stated)	444.92	462.99	494.62	537.27	590.56
BVPS (adjusted)	444.92	462.99	494.62	537.27	590.56
Profit & Loss (Rsm)					
Net interest income	83,666.18	81,143.63	87,792.21	100,708.32	120,906.10
Other income	<u>74,884.86</u>	<u>74,776.50</u>	<u>69,006.35</u>	<u>84,997.46</u>	<u>99,037.57</u>
Total revenues	158,551.04	155,920.13	156,798.56	185,705.78	219,943.68
Expenses	(70,451.14)	(58,598.33)	(65,208.73)	(77,752.11)	(85,772.32)
Operating profit	88,099.91	97,321.80	91,589.82	107,953.66	134,171.36
Provisions and other items	(37,105.30)	(43,895.10)	(22,881.84)	(16,546.49)	(24,488.22)
Profit before tax	50,994.61	53,426.70	68,707.98	91,407.18	109,683.14
Pre-exceptional net income	37,581.32	40,223.30	52,218.06	65,813.17	78,971.86
Capital dynamics (Rsm)					
Risk-weighted assets	3,564,630.00	2,941,810.00	3,300,378.52	3,684,226.47	4,239,366.95
Tier one capital	421,967.60	410,620.00	440,767.77	480,996.24	531,787.26
Total capital	553,557.60	571,030.00	601,177.77	649,426.74	708,639.28
Tier one ratio	11.8%	14.0%	13.4%	13.1%	12.5%
Total capital ratio	15.5%	19.4%	18.2%	17.6%	16.7%
Net profit after tax	37,581.32	40,223.30	52,218.06	65,813.17	78,971.86
<i>Tier 1 requirement</i>					
Less: Working capital requirement					
Less: Dividends	<u>14,326.82</u>	<u>15,651.71</u>	<u>16,956.02</u>	<u>18,260.32</u>	<u>19,564.63</u>
Surplus capital generated					
Surplus capital generation ratio					
Balance sheet (Rsm)					
Assets	3,793,009.62	3,633,998.12	4,025,972.57	4,555,216.50	5,223,165.23
Customer loans	2,234,948.49	1,869,817.97	2,212,434.85	2,684,577.93	3,266,126.85
Customer deposits	2,183,478.25	2,020,165.97	2,284,711.52	2,712,409.51	3,267,807.65
Funds under management					
Loans : assets	58.9%	51.5%	55.0%	58.9%	62.5%
Deposits : assets	57.6%	55.6%	56.7%	59.5%	62.6%
Loans : deposits	102.4%	92.6%	96.8%	99.0%	99.9%
Shareholders funds : assets	13.06%	14.20%	13.70%	13.15%	12.61%
Asset quality (Rsm)					
Non-performing assets	98,030.00	96,270.00	118,270.00	134,827.80	148,310.58
Total risk reserves	51,840.00	57,260.00	79,345.17	90,100.38	98,671.26
NPLs : loans	4.39%	5.15%	5.35%	5.02%	4.54%
NPL coverage	53%	59%	67%	67%	67%
Provision charge : average loans	1.66%	2.13%	1.12%	0.68%	0.82%
Net NPLs : shareholders' funds	9.3%	7.6%	7.1%	7.5%	7.5%
Profitability					
Net interest margin (avg assets)	2.15%	2.19%	2.29%	2.35%	2.47%
Provisions : operating profit	42.1%	45.1%	25.0%	15.3%	18.3%
RoE	7.8%	8.0%	9.8%	11.4%	12.6%
RoAdjE					
RoRWA	1.05%	1.24%	1.67%	1.88%	1.99%
RoA	0.96%	1.08%	1.36%	1.53%	1.62%
Productivity					
Cost : income ratio	44.4%	37.6%	41.6%	41.9%	39.0%
Costs : average assets	1.8%	1.6%	1.7%	1.8%	1.8%
Compensation expense ratio	18.3%	16.5%	23.1%	22.8%	19.6%
Momentum					
Revenue growth	-0.8%	-1.7%	+0.6%	+18.4%	+18.4%
Operating profit growth	+12.5%	+10.5%	-5.9%	+17.9%	+24.3%
Net profit growth	-9.6%	+7.0%	+29.8%	+26.0%	+20.0%
Dividend growth	-6.7%	+9.1%	+8.3%	+7.7%	+7.1%
Value*					
UBS bank valuation					
Leveraged P/E					
Risk tendency P/E					
Merger P/E					
Market capitalisation (Rsm)	614,082.03	860,472.27	1,208,175.64	1,208,175.64	1,208,175.64
Conventional valuation					
Market cap./Revenues	3.9x	5.5x	7.7x	6.5x	5.5x
Market cap./Operating profit	7.0x	8.8x	13.2x	11.2x	9.0x
P/E (stated)	16.6x	21.4x	23.1x	18.4x	15.3x
P/E (UBS adjusted)	16.6x	21.4x	23.1x	18.4x	15.3x
Dividend yield (net)	1.96%	1.56%	1.20%	1.29%	1.38%
P/BV (stated)	1.3x	1.7x	2.2x	2.0x	1.8x
P/BV (adjusted)	1.3x	1.7x	2.2x	2.0x	1.8x

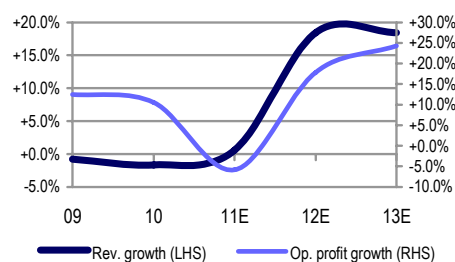
Source: UBS estimates. * Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of Rs1,083.90 on 24/01/2011

ICICI Bank is the largest private sector bank and the second largest bank in India. It has an asset base of Rs3.66trn. The bank had a network of 1,520 branches at the end of October 2009.

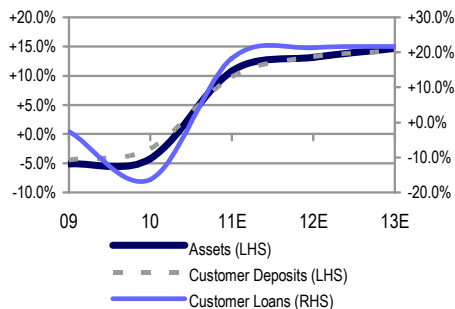
Profitability (RoE & RoRWA)



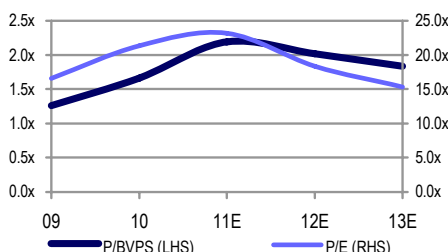
Momentum (Revenue & Operating profit growth)



Balance Sheet Growth



Value (P/Adj. BVPS & P/Adj. EPS)



■ ICICI Bank

ICICI Bank is the largest private sector bank and the second largest bank in India. It has an asset base of Rs3.66trn. The bank had a network of 1,520 branches at the end of October 2009.

■ Statement of Risk

We believe a sustained economic slowdown could impact the banking and finance sector including ICICI Bank on several fronts: lead to a slowdown in credit, increase NPL risk, impact fee income, and exert pressure on NIM.

Q3FY11 results above UBS estimates

■ Q3FY11 EBITDA/PAT beat estimates on higher top line numbers

Q3FY11 sales of Rs22.4b (+20% YoY, +147% QoQ) beat our estimates of Rs20.3b on higher iron ore volumes and realizations. EBITDA of Rs12.2b (+20% YoY, +317% QoQ) and PAT of Rs10.7b (+28% YoY, +177% QoQ) were higher than our estimates of Rs10.7b and Rs9.4b respectively. EBITDA margin at 54% was inline with our expectations of 53%.

■ Iron ore realisations and volumes higher than UBS-e

Iron ore volumes of 5.4mt (-21% YoY, +167% QoQ) was higher than UBS-e of 5mt and ASP was Rs3882/t (+53% YoY, 10% QoQ) vs. UBS-e of Rs3645/t. Iron ore sales was Rs20.9b (+21% YoY, 193% QoQ) vs. our Rs18.2b. Pig iron sales was Rs1.6b (+14% YoY, -20% QoQ) while Met Coke sales was Rs1.3b (+16% YoY, -7% QoQ). Sesa's cash & cash equivalents was Rs82b at the end of 3QFY11.

■ Seasonality / potential +ve from K'taka export ban are near term catalysts

Spot iron ore prices (58% Fe grade China CFR) have risen 10% MoM to US\$159/t. Sesa is a direct beneficiary of rising spot iron ore prices and we expect short term iron ore prices to remain strong due to 1) Chinese seasonal restocking in Q4 & 2) increase in steel production rates. Supreme Court of India has observed that Karnataka iron ore export ban cannot be indefinite and has asked the state to notify new rules for exports. Positive actions on export ban will be a key catalyst.

■ Valuation: Maintain Buy rating and price target of Rs410

We increase Sesa's PT to Rs410 (Prev. Rs400) factoring in the inc. in UBS' Cairn India PT to Rs375 (Prev. Rs355). We value Sesa at 4.5x Dec'12E EBITDA and 20% stake in Cairn India at PT of Rs375/sh and apply 20% holding co. discount.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	49,179	57,978	84,931	105,960	116,808
EBIT (UBS)	24,492	30,136	44,687	58,554	60,358
Net Income (UBS)	19,881	26,291	37,262	38,244	39,846
EPS (UBS, Rs)	25.25	31.64	43.34	44.48	46.35
Net DPS (UBS, Rs)	2.63	3.80	5.60	4.46	4.51

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	47.6	52.0	52.6	55.3	51.7
ROIC (EBIT) %	184.7	131.8	117.4	115.6	109.9
EV/EBITDA (core) x	3.4	5.8	4.6	3.1	2.5
PE (UBS) x	5.7	8.8	7.6	7.4	7.1
Net dividend yield %	3.9	1.4	1.7	1.4	1.4

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs330.25 on 24 Jan 2011 23:38 EST

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Global Equity Research

India

Mining

12-month rating **Buy**
Unchanged

12m price target **Rs410.00/US\$8.99**
Prior: Rs400.00/US\$8.77

Price **Rs330.25/US\$7.24**

RIC: SESA.BO BBG: SESA IB

24 January 2011

Trading data (local/US\$)

52-wk range	Rs490.75-289.05/US\$11.05-6.37
Market cap.	Rs274bn/US\$6.01bn
Shares o/s	831m (ORD)
Free float	49%
Avg. daily volume ('000)	4,005
Avg. daily value (m)	Rs1,288.1

Balance sheet data 03/11E

Shareholders' equity	Rs122bn
P/BV (UBS)	2.3x
Net Cash (debt)	(Rs69.2bn)

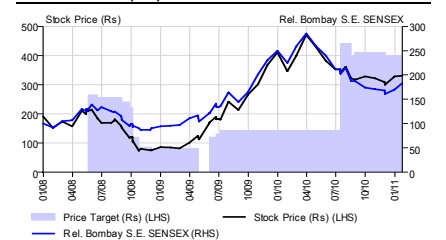
Forecast returns

Forecast price appreciation	+21.1%
Forecast dividend yield	1.7%
Forecast stock return	+22.8%
Market return assumption	13.0%
Forecast excess return	+9.8%

EPS (UBS, Rs)

	03/11E	03/10	03/13E
	UBS	Cons.	Actual
Q1E	3.00	-	2.62
Q2E	2.19	-	1.91
Q3E	7.74	7.74	6.77
Q4E	10.86	10.86	8.99
03/11E	43.34	43.34	
03/12E	44.48	44.49	

Performance (Rs)



www.ubs.com/investmentresearch

Table 1: Sesa Goa consolidated results

Rs m	Q3 FY10	Q2FY11	Q3FY11	QoQ	YoY
Net Sales	18,668	9,068	22,373	147%	20%
Incl/ Dec in stock	814	-1,387	581	-142%	-29%
Cons of raw material	883	871	913	5%	3%
Total raw material	1,697	-517	1,494	-389%	-12%
Staff cost	515	466	496	6%	-4%
Consumption of stores	690	614	655	7%	-5%
Freight	3,276	2,677	2,910	9%	-11%
Inland transportation	2,184	1,739	1,568	-10%	-28%
Other Services	1,092	938	1,341	43%	23%
Purchase of ore	645	1,068	1,254	17%	94%
Export duty	175	527	1,167	121%	567%
Other expenditure	1,616	1,346	2,273	69%	41%
Total expense	8,614	6,181	10,249	66%	19%
Less costs/ expenses recovered	83	32	53	70%	-35%
Net operating expenses	8,531	6,150	10,195	66%	20%
EBITDA	10,137	2,919	12,178	317%	20%
EBITDA Margin %	54%	32%	54%		
Depreciation	225	194	208	7%	-8%
Interest charge	251	140	134	-4%	-47%
Other Income	1548	1484	1419	-4%	-8%
PBT	11,210	4,068	13,255	226%	18%
Tax	2,906	189	2,573	1261%	-11%
Tax Rate %	26%	5%	19%		
Exceptionals					
Minority interest	29	30	30		
PAT	8,275	3,850	10,653	177%	28%

Source: Company data

Table 2: Sesa Goa consolidated segmental revenue break up

Segmental revenues (Rs m)	Q3 FY10	Q2FY11	Q3FY11	QoQ	YoY
Iron ore	17266	7124	20891	193%	21%
Met. Coke	1051	1316	1219	-7%	16%
Pig iron	1407	1996	1598	-20%	14%
Less: Inter seg rev	812	1248	1188	-5%	46%
Net Sales	18911	9188	22519	145%	19%

Source: Company data

Table 3: Sesa Goa consolidated segmental earnings break up

Segmental earnings (Rs m)	Q3 FY10	Q2FY11	Q3FY11	QoQ	YoY
Iron ore	9816	2170	11549	432%	18%
Met. Coke	-4	333	222	-33%	NM
Pig iron	343	341	346	1%	1%
EBIT	10155	2845	12116	326%	19%
Less: Interest	251	140	134	-4%	-47%
Less: Exchange loss on FCCB		-364	-24	-93%	
Add: Interest income	386	450	389	-13%	1%
Add: Dividend income	191	543	820	51%	330%
Add: Other non recurring	728	6	40	550%	-94%
PBT	11210	4068	13255	226%	18%

Source: Company data

Table 4: Sesa Goa consolidated iron ore and pig iron volumes and realisation /tonne

Volumes ('000 tonnes)	Q3 FY10	Q2FY11	Q3FY11	QoQ	YoY
Iron ore	6792	2019	5,381	167%	-21%
Pig iron	71	84	63	-25%	-11%
Realisations per tonne (Rs)					
Iron ore	2542	3528	3,882	10%	53%
Pig iron	19815	23767	25362	7%	28%

Source: Company data

Table 5: Sesa Goa price target derivation

EV/EBITDA valuation	Rs m
EBITDA - Dec 2012	62,626
Target EV/EBITDA multiple (x)	4.5
Target EV	281,816
Net cash - Dec 2011	(43,754)
Target Market Cap ex-stake in Cairn India	238,062
Price target for core business (Rs/share)	277
Stake in Cairn India	20%
Cairn India shares outstanding (mn)	1,920
Target price of Cairn India (Rs/share)	375
Value of stake in Cairn India	143,993
Less: Holding company discount (20%)	28,799
Target value of stake in Cairn India (Rs/share)	115,194
Price target for Cairn India stake	134
Price target (Rs/share)	411*

Source: UBS estimates, *Rounded off to Rs410/sh

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	18,175	21,761	37,659	49,179	57,978	84,931	46.5	105,960	24.8	116,808	10.2
Operating expenses (ex dephn)	(9,819)	(12,551)	(15,194)	(24,170)	(27,097)	(38,806)	43.2	(44,902)	15.7	(53,398)	18.9
EBITDA (UBS)	8,357	9,210	22,465	25,009	30,881	46,125	49.4	61,058	32.4	63,410	3.9
Depreciation	(296)	(393)	(500)	(517)	(745)	(1,438)	93.0	(2,504)	74.1	(3,051)	21.8
Operating income (EBIT, UBS)	8,061	8,818	21,965	24,492	30,136	44,687	48.3	58,554	31.0	60,358	3.1
Other income & associates	523	800	1,282	2,187	3,381	2,342	-30.7	1,537	-34.4	1,639	6.6
Net interest	(3)	39	2	422	929	2,040	119.6	(2,735)	-	(2,258)	-17.4
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	8,581	9,657	23,249	27,102	34,446	49,069	42.5	57,356	16.9	59,739	4.2
Tax	(2,833)	(3,147)	(7,760)	(7,153)	(8,056)	(11,765)	46.1	(19,054)	61.9	(19,845)	4.2
Profit after tax	5,748	6,510	15,489	19,949	26,390	37,304	41.4	38,303	2.7	39,894	4.2
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(36)	(49)	(74)	(68)	(99)	(42)	-57.7	(59)	40.4	(48)	-18.4
Net income (local GAAP)	5,712	6,461	15,416	19,881	26,291	37,262	41.7	38,244	2.6	39,846	4.2
Net Income (UBS)	5,712	6,461	15,416	19,881	26,291	37,262	41.7	38,244	2.6	39,846	4.2
Tax rate (%)	33	33	33	26	23	24	2.5	33	38.5	33	0.0
Pre-abnormal tax rate (%)	33	33	33	26	23	24	2.5	33	38.5	33	0.0
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	7.26	8.21	19.58	25.25	31.64	43.34	37.0	44.48	2.6	46.35	4.2
EPS (UBS)	7.26	8.21	19.58	25.25	31.64	43.34	37.0	44.48	2.6	46.35	4.2
Net DPS	2.28	2.32	2.63	2.63	3.80	5.60	47.3	4.46	-20.4	4.51	1.2
Cash EPS	7.63	8.71	20.22	25.91	32.54	45.02	38.4	47.40	5.3	49.90	5.3
BVPS	14.58	20.44	37.39	59.90	95.28	141.43	48.4	181.46	28.3	223.30	23.1
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	4,072	4,799	4,975	5,930	7,823	22,348	185.7	37,727	68.8	37,775	0.1
Net intangible fixed assets	0	0	0	0	14,734	14,734	0.0	14,734	0.0	14,734	0.0
Net working capital (incl. other assets)	4,535	4,780	6,479	13,280	11,956	15,280	27.8	7,310	-52.2	7,519	2.9
Other liabilities	(2,005)	(1,961)	(2,473)	(3,129)	(4,864)	(5,866)	20.6	(4,930)	-16.0	(5,035)	2.1
Operating invested capital	6,602	7,618	8,980	16,081	29,649	46,497	56.8	54,842	17.9	54,994	0.3
Investments	4,742	8,454	20,510	31,252	45,649	144,727	217.0	144,727	0.0	144,727	0.0
Total capital employed	11,345	16,072	29,490	47,333	75,297	191,223	154.0	199,568	4.4	199,720	0.1
Shareholders' equity	11,475	16,091	29,435	47,157	79,177	121,592	53.6	156,002	28.3	191,969	23.1
Minority interests	144	193	266	334	433	475	9.7	534	12.4	582	9.0
Total equity	11,619	16,284	29,701	47,491	79,610	122,067	53.3	156,535	28.2	192,551	23.0
Net debt / (cash)	(274)	(212)	(210)	(158)	(4,313)	69,157	-	43,033	-37.8	7,169	-83.3
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	11,345	16,072	29,490	47,333	75,297	191,223	154.0	199,568	4.4	199,720	0.1
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	8,061	8,818	21,965	24,492	30,136	44,687	48.3	58,554	31.0	60,358	3.1
Depreciation	296	393	500	517	745	1,438	93.0	2,504	74.1	3,051	21.8
Net change in working capital	(1,656)	(218)	(1,703)	(6,734)	1,365	(3,243)	-	8,017	-	(148)	-
Other (operating)	550	816	1,310	2,177	3,478	2,389	-31.3	1,584	-33.7	1,686	6.4
Operating cash flow (pre tax/interest)	7,251	9,807	22,072	20,452	35,724	45,271	26.7	70,660	56.1	64,947	-8.1
Net interest received / (paid)	(28)	13	(25)	388	873	1,993	128.2	(2,782)	-	(2,305)	-17.1
Dividends paid	(1,578)	(1,795)	(1,842)	(1,382)	(2,072)	(3,160)	52.5	(4,817)	52.4	(3,834)	-20.4
Tax paid	(2,657)	(3,236)	(7,475)	(7,210)	(7,491)	(12,502)	66.9	(19,054)	52.4	(19,845)	4.2
Capital expenditure	(951)	(1,119)	(675)	(1,472)	(2,638)	(15,963)	505.2	(17,884)	12.0	(3,099)	-82.7
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(1,701)	(3,732)	(12,056)	(10,828)	(20,286)	(99,078)	388.4	0	-	0	-
Share issues	0	0	0	0	44	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	336	(62)	(2)	(52)	4,155	(83,439)	-	26,124	-	35,864	37.3
FX / non cash items	(6)	0	0	0	0	9,970	-	0	-	0	-33.3
Balance sheet (inc)/dec in net debt	330	(62)	(2)	(52)	4,155	(73,469)	-	26,124	-	35,864	37.3
Core EBITDA	8,357	9,210	22,465	25,009	30,881	46,125	49.4	61,058	32.4	63,410	3.9
Maintenance capital expenditure	0	0	0	0	0	0	0.0	0	0.0	0	0.0
Maintenance net working capital	0	0	0	0	0	0	0.0	0	0.0	0	0.0
Operating free cash flow, pre-tax	8,356	9,210	22,465	25,009	30,881	46,125	49.4	61,058	32.4	63,409	3.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

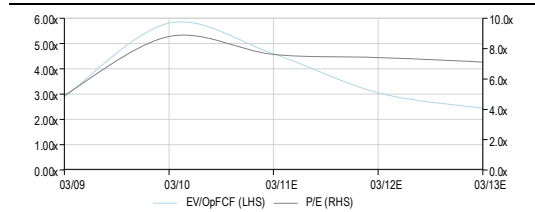
12m price target

Rs410.00

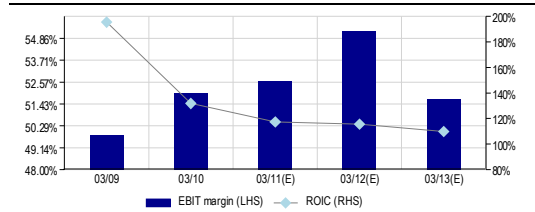
Company profile

Sesa Goa is a 51%-owned subsidiary of the Vedanta Group and was acquired from Mitsui & Co., in 2007. Sesa is the largest listed Indian exporter of iron ore, selling 12.3m tonnes in FY08 primarily to steel-making companies in China, Japan and Europe. Over the past decade, Sesa has diversified into the manufacture of pig iron and metallurgical coke via its 88.2%-owned subsidiary, Sesa Industries Ltd.

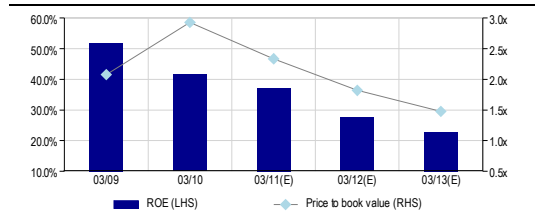
Value (EV/OpFCF & P/E)



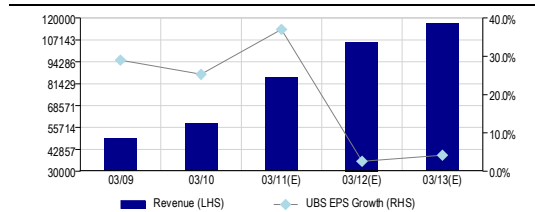
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	5.7	4.9	8.8	7.6	7.4	7.1
P/E (UBS)	5.7	4.9	8.8	7.6	7.4	7.1
P/CEPS	5.5	4.8	8.6	7.3	7.0	6.6
Net dividend yield (%)	3.9	2.1	1.4	1.7	1.4	1.4
P/BV	2.7	2.1	2.9	2.3	1.8	1.5
EV/revenue (core)	1.7	1.5	3.1	2.5	1.8	1.3
EV/EBITDA (core)	3.4	2.9	5.8	4.6	3.1	2.5
EV/EBIT (core)	3.5	2.9	6.0	4.7	3.2	2.6
EV/OpFCF (core)	3.4	2.9	5.8	4.6	3.1	2.5
EV/op. invested capital	6.5	5.8	7.8	5.6	3.7	2.8

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	98,016	219,704	274,425	274,425	274,425
+ minority interests	300	383	454	504	558
+ average net debt (cash)	(26,065)	(40,686)	(62,766)	(88,632)	(119,626)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	72,250	179,401	212,113	186,297	155,357

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	34.7	30.6	17.9	46.5	24.8	10.2
EBITDA (UBS)	37.2	11.3	23.5	49.4	32.4	3.9
EBIT (UBS)	38.1	11.5	23.0	48.3	31.0	3.1
EPS (UBS)	43.2	29.0	25.3	37.0	2.6	4.2
Cash EPS	41.7	28.2	25.6	38.4	5.3	5.3
Net DPS	19.3	0.0	44.5	47.3	-20.4	1.2
BVPS	58.0	60.2	59.1	48.4	28.3	23.1

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	49.2	50.9	53.3	54.3	57.6	54.3
EBIT / revenue	47.6	49.8	52.0	52.6	55.3	51.7
Net profit (UBS) / revenue	34.8	40.4	45.3	43.9	36.1	34.1

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	NM	NM	NM	NM	NM	NM
ROIC post tax	-	NM	NM	NM	NM	73.4
Net ROE	61.9	51.9	41.6	37.1	27.6	22.9

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	-	-	-	22.0	27.5
Dividend cover (UBS EPS)	5.7	9.6	8.3	7.7	10.0	10.3
Div. payout ratio (% UBS EPS)	21.0	10.4	12.0	12.9	10.0	9.7
Net debt / EBITDA	NM	NM	NM	1.5	0.7	0.1

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	3.7	3.9	2.5	2.2	2.1	2.1
Revenue / fixed assets	6.5	9.0	4.1	2.8	2.4	2.2
Revenue / net working capital	5.4	5.0	4.6	6.2	9.4	15.8

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.1
Capex / revenue (%)	3.3	3.0	4.5	18.8	16.9	2.7
Capex / depreciation	2.3	2.8	3.5	NM	7.1	1.0

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	(0.7)	(0.3)	(5.4)	56.9	27.6	3.7
Net debt / (net debt + equity)	(0.7)	(0.3)	(5.8)	36.3	21.6	3.6
Net debt (core) / EV	(21.4)	(36.1)	(22.7)	(29.6)	(47.6)	(77.0)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs330.25 on 24 Jan 2011 23:38 EST Market cap(E) may include forecast share issues/buybacks.

Navin Gupta, CFA

Analyst

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■ Sesa Goa

Sesa Goa is a 51%-owned subsidiary of the Vedanta Group and was acquired from Mitsui & Co., in 2007. Sesa is the largest listed Indian exporter of iron ore, selling 12.3m tonnes in FY08 primarily to steel-making companies in China, Japan and Europe. Over the past decade, Sesa has diversified into the manufacture of pig iron and metallurgical coke via its 88.2%-owned subsidiary, Sesa Industries Ltd.

■ Statement of Risk

Sesa, like all mining companies, is subject to exchange rate risk, and to price fluctuations of its main products. Investors should be aware mining stocks including Sesa are inherently volatile and extremely dependent on global underlying demand and supplier behaviour. A weakening in global production could place our pricing forecast, earnings and valuations under pressure. Investment in Sesa is subject to China risk, given the majority of forecasted iron ore growth is from China

3Q11: Impressive minutes growth

■ Revenue and EBITDA in-line with UBS estimates; Net Income ahead

Idea announced consolidated 3Q11 results: Revenues grew 8.1% qoq at Rs39.6bn (UBS-e Rs39.5bn), EBITDA grew 7.9% qoq to Rs9.5bn (UBS-e Rs9.6bn), and net profit grew 35.2% qoq to Rs2.4bn (UBS-e Rs2.0bn). Net income was higher than UBS estimates mainly due to lower net interest expense and tax.

■ Voice rev/min remained flat; mins on network grew strongly at 10.2% qoq

Total minutes on the network (standalone) increased from 84.8bn mins in 2QFY11 to 93.5bn mins (+10.2% qoq) ahead of UBS-e (91.0bn mins). Mobile voice rev/min remained flat at Rs0.38/min in-line with UBS-e. Mobile EBITDA margin from initial 11 service areas declined 30bps qoq to 26.7%, while EBITDA losses from new service areas remained flat at Rs1.4bn in 3QFY11. On an overall basis, mobile EBITDA margins remained flat 20.6% in 3QFY11.

■ Other results highlight

1) Idea plans to launch 3G services in the 11 3G licensed service areas in the next few months. It capitalised interest of Rs1.2bn related to 3G debt in 3QFY11. Idea has net debt of Rs106.8bn as of Dec'10. 2) Idea lowered its FY11 capex guidance to Rs30bn from Rs40bn given earlier on account of capex savings and spill over to next quarter. 3) Indus Towers contributed Rs1.3bn (13%) to consolidated EBITDA and Rs222m (9%) to consolidated net profit

■ Valuation: Maintain Buy rating with SOTP based price target of Rs105

Idea is hosting a conference call on January 25, 2011 to discuss the performance (refer to Table 4 for dial in details).

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	101,544	124,471	154,273	190,871	226,779
EBIT (UBS)	14,337	13,923	13,522	18,433	26,266
Net Income (UBS)	8,816	9,540	6,619	6,607	13,172
EPS (UBS, Rs)	2.95	3.03	2.01	2.00	3.99
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	17.9	11.2	8.8	9.7	11.6
ROIC (EBIT) %	14.1	8.5	6.7	7.4	10.3
EV/EBITDA (core) x	-	7.3	9.5	7.3	5.9
PE (UBS) x	-	21.7	34.2	34.3	17.2
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs68.60 on 21 Jan 2011 23:38 SGT

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Wireless Communications

12-month rating **Buy**
Unchanged

12m price target **Rs105.00/US\$2.30**
Unchanged

Price **Rs68.60/US\$1.51**

RIC: IDEA.BO BBG: IDEA IB

24 January 2011

Trading data (local/US\$)

52-wk range	Rs77.80-49.05/US\$1.71-1.04
Market cap.	Rs226bn/US\$4.97bn
Shares o/s	3,299m (ORD)
Free float	12%
Avg. daily volume ('000)	710
Avg. daily value (m)	Rs49.7

Balance sheet data 03/11E

Shareholders' equity	Rs120bn
P/BV (UBS)	1.9x
Net Cash (debt)	(Rs145bn)

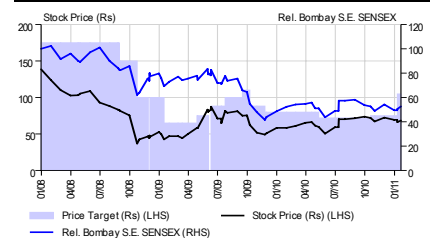
Forecast returns

Forecast price appreciation	+53.1%
Forecast dividend yield	0.0%
Forecast stock return	+53.1%
Market return assumption	13.0%
Forecast excess return	+40.1%

EPS (UBS, Rs)

	03/11E	03/10	Actual
Q1	0.61	-	0.96
Q2	0.54	-	0.71
Q3E	0.61	0.61	0.55
Q4E	0.24	0.24	0.81
03/11E	2.01	2.01	
03/12E	2.00	2.00	

Performance (Rs)



www.ubs.com/investmentresearch

Table 1: Idea consolidated 1QFY11 results summary

Income Statement Summary	3Q09A	4Q09A	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A	%qoq	%yoy	3Q11E	Delta
Revenue	27,311	29,365	29,759	29,739	31,495	33,478	36,537	36,592	39,556	8.1%	25.6%	39,462	0.2%
% growth	18.6%	7.5%	1.3%	-0.1%	5.9%	6.3%	9.1%	0.2%	8.1%				7.8%
Operating expenses (ex D&A)	(20,336)	(21,257)	(21,160)	(21,644)	(23,353)	(24,242)	(27,653)	(27,804)	(30,074)	8.2%	28.8%	(28,841)	4.3%
EBITDA	6,974	8,108	8,599	8,095	8,141	8,636	8,884	8,788	9,483	7.9%	16.5%	9,588	-1.1%
EBITDA margin (%)	25.5%	27.6%	28.9%	27.2%	25.9%	25.8%	24.3%	24.0%	24.0%				24.3%
Depreciation & amortization	(3,937)	(4,321)	(4,555)	(4,797)	(5,131)	(5,667)	(5,656)	(5,820)	(5,925)	1.8%	15.5%	(5,849)	1.3%
EBIT	3,037	3,787	4,044	3,299	3,011	2,969	3,228	2,968	3,557	19.8%	18.1%	3,740	-4.9%
EBIT margin (%)	11.1%	12.9%	13.6%	11.1%	9.6%	8.9%	8.8%	8.1%	9.0%				9.5%
Finance expense	(874)	(1,047)	(869)	(1,057)	(938)	(1,141)	(1,142)	(1,028)	(941)	-8.4%	0.3%	(1,405)	-33.0%
Other Income	-	-	-	317	-	519	-	-	-				-
Income tax expense	31	2	(204)	(357)	(372)	(281)	(73)	(143)	(186)	29.8%	-50.1%	(308)	-39.7%
Net profit	2,195	2,743	2,971	2,202	1,701	2,066	2,014	1,797	2,431	35.2%	42.9%	2,027	19.9%
Net profit margin (%)	8.0%	9.3%	10.0%	7.4%	5.4%	6.2%	5.5%	4.9%	6.1%				5.1%

Source: Company data, UBS estimates

Table 2: Idea standalone 3QFY11 results summary

Standalone Income Statement	3Q09A	4Q09A	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A	%qoq	%yoy	3Q11E	Delta
Revenue	26,209	28,626	28,883	28,909	30,610	33,011	36,897	36,891	39,901	8.2%	30.4%	39,462	1.1%
% growth	13.9%	9.2%	0.9%	0.1%	5.9%	7.8%	11.8%	0.0%	8.2%				7.0%
Operating expenses (ex D&A)	(19,404)	(21,211)	(21,183)	(21,602)	(23,407)	(24,683)	(28,960)	(29,273)	(31,687)	8.2%	35.4%	(31,104)	1.9%
EBITDA	6,805	7,415	7,700	7,307	7,203	8,328	7,937	7,618	8,214	7.8%	14.0%	8,359	-1.7%
EBITDA margin (%)	26.0%	25.9%	26.7%	25.3%	23.5%	25.2%	21.5%	20.7%	20.6%				21.2%
Depreciation & amortization	(3,579)	(3,897)	(4,064)	(4,200)	(4,422)	(4,928)	(5,160)	(5,265)	(5,362)	1.8%	21.3%	(5,301)	1.2%
EBIT	3,226	3,518	3,636	3,107	2,781	3,400	2,777	2,353	2,852	21.2%	2.6%	3,058	-6.7%
EBIT margin (%)	12.3%	12.3%	12.6%	10.7%	9.1%	10.3%	7.5%	6.4%	7.1%				7.7%
Finance expense	(600)	(491)	(406)	(240)	(418)	(337)	(766)	(665)	(572)	-14.0%	36.8%	(1,046)	-45.3%
Other Income	-	-	-	-	-	-	-	-	-				-
Income tax expense	(64)	5	(156)	(360)	(410)	(300)	(46)	(58)	(72)	24.1%	-82.4%	(201)	-64.2%
Net profit	2,562	3,032	3,074	2,507	1,953	2,763	1,964	1,630	2,208	35.5%	13.1%	1,811	21.9%
Net profit margin (%)	9.8%	10.6%	10.6%	8.7%	6.4%	8.4%	5.3%	4.4%	5.5%				4.6%
Operating statistics													
Total mobile subs	34.2	38.9	42.8	46.8	52.3	63.8	68.9	74.2	81.8	10.2%	56.4%	79.4	3.0%
Implied ARPU	270	261	236	215	206	190	185	172	173	0.8%	-15.9%	171	1.1%
% Non-voice	9.5%	9.6%	10.1%	10.6%	11.2%	12.4%	12.6%	12.9%	13.0%				12.9%
Voice ARPU	245	236	212	192	183	166	162	150	151	0.6%	-17.6%	149	1.0%
Blended MOU	416	402	399	375	389	398	415	394	401	1.8%	3.1%	395	1.5%
Voice revenue per min	0.59	0.59	0.53	0.51	0.47	0.42	0.39	0.38	0.38	-1.1%	-20.1%	0.38	-0.5%
% change	3.2%	-0.2%	-9.5%	-3.4%	-8.3%	-11.2%	-6.4%	-2.7%	-1.1%				-0.6%
Total minutes carried (m)	40,254	44,224	48,729	50,339	57,841	68,275	82,274	84,828	93,503	10.2%	61.7%	91,006	2.7%

Source: Company data, UBS estimates

Table 3: UBS minutes based KPI – Idea standalone

	1Q09A	2Q09A	3Q09A	4Q09A	1Q10A	2Q10A	3Q10A	4Q10A	1Q11A	2Q11A	3Q11A
Mobile revenues (Rs m)	21,781	23,006	26,209	28,626	28,883	28,909	30,610	33,011	36,897	36,891	39,901
% Non-voice revenue	8.9%	9.8%	9.5%	9.6%	10.1%	10.6%	11.2%	12.4%	12.6%	12.9%	13.0%
Voice revenue (Rs m)	19,842	20,751	23,719	25,878	25,966	25,845	27,182	28,918	32,248	32,132	34,714
Mobile minutes carried (m)	33,087	36,315	40,254	44,224	48,729	50,339	57,841	68,275	82,274	84,828	93,503
Network sites	27,594	33,377	39,289	44,230	48,067	50,915	55,804	66,187	66,725	67,980	70,208
Mobile minutes carried per site (m)	1.20	1.09	1.02	1.00	1.01	0.99	1.04	1.03	1.23	1.25	1.33
Voice rev. per min (Rs)	0.60	0.57	0.59	0.59	0.53	0.51	0.47	0.42	0.39	0.38	0.38
Cost per min (Rs)	0.40	0.42	0.44	0.43	0.39	0.38	0.36	0.32	0.31	0.30	0.30
Spread per min (Rs)	0.20	0.15	0.15	0.15	0.14	0.13	0.11	0.11	0.08	0.08	0.08
EBITDA margin %	33.1%	26.4%	26.0%	25.9%	26.7%	25.3%	23.5%	25.2%	21.5%	20.7%	20.6%
ROE (LTM)	20.2%	14.5%	11.4%	10.2%	8.9%	8.5%	7.8%	7.9%	7.0%	6.6%	7.0%
ROCE (LTM)	14.5%	12.6%	11.0%	9.9%	8.5%	8.0%	7.3%	7.0%	6.0%	5.6%	5.6%

Source: Company data, UBS estimates

Table 4: Idea results call dial in details (January 25, 2011)

Country/City	Local time	Dial-in numbers
Mumbai	2.30 pm	+91-22-6629-0339, +91-22-3065-0126
Singapore	5.00 pm	800 101 2045 (Toll Free)
Hong Kong	5.00 pm	800 964 448 (Toll Free)
USA	5.00am	1 866 746 2133 (Toll Free)
UK	10.00am	0 808 101 1573 (Toll Free)

Source: Company

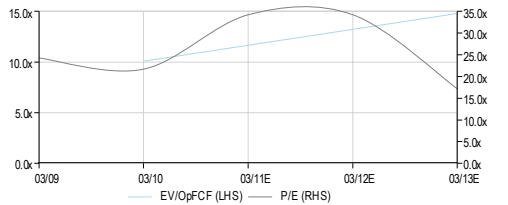
Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	29,899	44,129	67,375	101,544	124,471	154,273	23.9	190,871	23.7	226,779	18.8
Operating expenses (ex deprecn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	10,918	15,102	22,693	28,364	34,072	36,748	7.9	48,147	31.0	59,537	23.7
Depreciation	(5,495)	(6,718)	(8,768)	(14,028)	(20,149)	(23,226)	15.3	(29,714)	27.9	(33,270)	12.0
Operating income (EBIT, UBS)	5,423	8,384	13,925	14,337	13,923	13,522	-2.9	18,433	36.3	26,266	42.5
Other income & associates	0	0	0	0	836	0	-	0	-	0	-
Net interest	(3,225)	(3,291)	(2,776)	(4,945)	(4,005)	(6,189)	54.5	(10,402)	68.1	(10,037)	-3.5
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	2,198	5,092	11,149	9,391	10,754	7,333	-31.8	8,031	9.5	16,229	102.1
Tax	(80)	(60)	(725)	(576)	(1,214)	(714)	-41.2	(1,423)	99.3	(3,058)	114.8
Profit after tax	2,118	5,033	10,424	8,816	9,540	6,619	-30.6	6,607	-0.2	13,172	99.3
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	2,118	5,033	10,424	8,816	9,540	6,619	-30.6	6,607	-0.2	13,172	99.3
Net Income (UBS)	2,118	5,033	10,424	8,816	9,540	6,619	-30.6	6,607	-0.2	13,172	99.3
Tax rate (%)	4	1	7	6	11	10	-13.8	18	82.0	19	6.3
Pre-abnormal tax rate (%)	4	1	7	6	11	10	-13.8	18	82.0	19	6.3
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	0.94	1.94	3.96	2.95	3.03	2.01	-33.8	2.00	-0.2	3.99	99.3
EPS (UBS)	0.94	1.94	3.96	2.95	3.03	2.01	-33.8	2.00	-0.2	3.99	99.3
Net DPS	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	3.37	4.52	7.28	7.66	9.43	9.05	-4.0	11.01	21.7	14.08	27.9
BVPS	2.45	8.85	11.60	42.78	34.47	36.47	5.8	38.47	5.5	42.46	10.4
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	38,769	62,248	106,085	166,672	187,143	206,001	10.1	222,107	7.8	232,663	4.8
Net intangible fixed assets	11,605	61	0	22,457	61	61,424	100595.9	60,703	-1.2	57,819	-4.8
Net working capital (incl. other assets)	(7,819)	(15,070)	(15,485)	(17,540)	(27,403)	(20,477)	-25.3	(25,944)	26.7	(30,911)	19.1
Other liabilities	0	0	0	(1,130)	(2,142)	(2,296)	7.2	(2,296)	0.0	(2,296)	0.0
Operating invested capital	42,554	47,239	90,600	170,460	157,659	244,652	55.2	254,570	4.1	257,275	1.1
Investments	0	12	139	20,452	20,452	20,452	0.0	20,452	0.0	20,452	0.0
Total capital employed	42,554	47,251	90,739	190,912	178,111	265,104	48.8	275,022	3.7	277,727	1.0
Shareholders' equity	6,361	22,945	30,562	132,634	113,703	120,322	5.8	126,930	5.5	140,101	10.4
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	6,361	22,945	30,562	132,634	113,703	120,322	5.8	126,930	5.5	140,101	10.4
Net debt / (cash)	36,193	24,306	60,177	58,278	64,408	144,782	124.8	148,093	2.3	137,625	-7.1
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	42,554	47,251	90,739	190,912	178,111	265,104	48.8	275,022	3.7	277,727	1.0
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	5,423	8,384	13,925	14,337	13,923	13,522	-2.9	18,433	36.3	26,266	42.5
Depreciation	5,495	6,718	8,768	14,028	20,149	23,226	15.3	29,714	27.9	33,270	12.0
Net change in working capital	4,597	7,251	1,077	(4,133)	10,875	(6,772)	-	5,468	-	4,967	-9.2
Other (operating)	567	3,291	3,742	6,618	4,841	6,189	27.8	7,517	21.5	7,152	-4.9
Operating cash flow (pre tax/interest)	16,082	25,644	27,512	30,850	49,788	36,165	-27.4	61,132	69.0	71,656	17.2
Net interest received / (paid)	(3,225)	(3,291)	(2,776)	(7,633)	(4,005)	(6,189)	54.5	(10,402)	68.1	(10,037)	-3.5
Dividends paid	0	0	0	0	0	0	-	0	-	0	-
Tax paid	(80)	(60)	(725)	(576)	(1,214)	(714)	-41.2	(1,423)	99.3	(3,058)	114.8
Capital expenditure	(5,258)	(17,167)	(49,677)	(62,053)	(20,424)	(42,083)	106.1	(42,937)	2.0	(40,942)	-4.6
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(340)	(12)	(6,082)	(45,815)	(10,592)	(6,189)	-41.6	(10,402)	68.1	(10,037)	-3.5
Share issues	0	22,706	3,225	72,704	(19,156)	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	7,179	27,820	(28,523)	(12,522)	(5,604)	(19,010)	239.2	(4,031)	-78.8	7,583	-
FX / non cash items	(3,375)	(15,932)	(7,349)	14,421	(527)	(61,363)	11546.4	721	-	2,884	300.0
Balance sheet (inc)/dec in net debt	3,804	11,888	(35,871)	1,899	(6,131)	(80,374)	1211.0	(3,310)	-95.9	10,467	-
Core EBITDA	10,918	15,102	22,693	28,364	34,072	36,748	7.9	48,147	31.0	59,537	23.7
Maintenance capital expenditure	(5,258)	(17,167)	(49,677)	(62,053)	(20,424)	(42,083)	106.1	(42,937)	2.0	(40,942)	-4.6
Maintenance net working capital	4,596	7,250	1,076	(4,134)	10,874	(6,773)	-	5,467	-	4,966	-9.2
Operating free cash flow, pre-tax	10,255	5,185	(25,908)	(37,822)	24,522	(12,108)	-	10,677	-	23,561	120.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

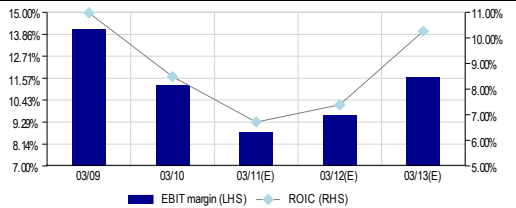
Company profile

Idea Cellular is a GSM mobile operator in India with a nationwide subscriber base of 43.0m (including Spice) for a market share of 11.1% as of March 2009. The company operates in 16 of 22 service areas in India and has access to 900 MHz spectrum in nine of 16 service areas. The company is part of the Aditya Birla Group.

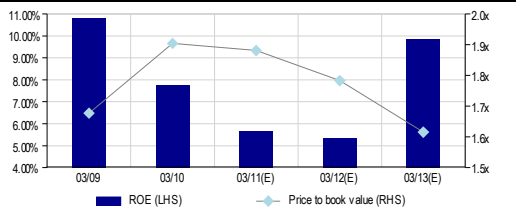
Value (EV/OpFCF & P/E)



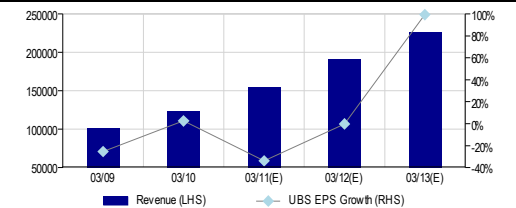
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	-	24.3	21.7	34.2	34.3	17.2
P/E (UBS)	-	24.3	21.7	34.2	34.3	17.2
P/CEPS	-	9.4	7.0	7.6	6.2	4.9
Net dividend yield (%)	-	0.0	0.0	0.0	0.0	0.0
P/BV	-	1.7	1.9	1.9	1.8	1.6
EV/revenue (core)	-	2.4	2.0	2.3	1.8	1.5
EV/EBITDA (core)	-	8.5	7.3	9.5	7.3	5.9
EV/EBIT (core)	-	16.9	17.8	25.9	19.1	13.3
EV/OpFCF (core)	-	NM	10.1	NM	NM	14.8
EV/op. invested capital	-	1.9	1.5	1.7	1.4	1.4

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	203,817	203,574	226,311	226,311	226,311
+ minority interests	0	0	0	0	0
+ average net debt (cash)	58,258	64,389	144,763	146,437	142,859
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(20,452)	(20,452)	(20,452)	(20,452)	(20,452)
Core enterprise value	241,623	247,511	350,622	352,297	348,719

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	45.4	50.7	22.6	23.9	23.7	18.8
EBITDA (UBS)	35.6	25.0	20.1	7.9	31.0	23.7
EBIT (UBS)	38.0	3.0	-2.9	-2.9	36.3	42.5
EPS (UBS)	71.8	-25.3	2.5	-33.8	-0.2	99.3
Cash EPS	35.1	5.1	23.1	-4.0	21.7	27.9
Net DPS	-	-	-	-	-	-
BVPS	124.6	NM	-19.4	5.8	5.5	10.4

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	33.8	27.9	27.4	23.8	25.2	26.3
EBIT / revenue	17.9	14.1	11.2	8.8	9.7	11.6
Net profit (UBS) / revenue	9.2	8.7	7.7	4.3	3.5	5.8

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	14.1	11.0	8.5	6.7	7.4	10.3
ROIC post tax	-	10.3	7.5	6.1	6.1	8.3
Net ROE	28.5	10.8	7.7	5.7	5.3	9.9

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	2.7	2.9	3.5	2.2	1.8	2.6
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (%), UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	2.6	2.1	1.9	3.9	3.1	2.3

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	0.8	0.8	0.8	0.8	0.8	0.9
Revenue / fixed assets	0.7	0.7	0.7	0.7	0.7	0.8
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	NM	NM	1.8	NM	0.6	0.9
Capex / revenue (%)	NM	NM	16.4	27.3	22.5	18.1
Capex / depreciation	3.5	4.4	1.0	1.8	1.4	1.2

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	NM	43.9	56.6	NM	NM	98.2
Net debt / (net debt + equity)	52.7	30.5	36.2	54.6	53.8	49.6
Net debt (core) / EV	-	24.1	26.0	41.3	41.6	41.0

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs68.60 on 21 Jan 2011 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

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■ Idea Cellular

Idea Cellular is a GSM mobile operator in India with a nationwide subscriber base of 43.0m (including Spice) for a market share of 11.1% as of March 2009. The company operates in 16 of 22 service areas in India and has access to 900 MHz spectrum in nine of 16 service areas. The company is part of the Aditya Birla Group.

■ Statement of Risk

Irrational competition among operators presents the biggest industry specific risk factor for Idea Cellular. In terms of company-specific risks, we identify the following: new circle strategies, and Idea's ability to scale up to meet burgeoning demand in the Indian mobile sector.

There is low visibility for capex associated with the new circles as it will depend on the amount of spectrum allocated as well as which circles are likely to be allocated spectrum.

UBS Investment Research

Asian Paints Ltd.

Q3 FY11 review

■ Results in line; disappoint consensus

Asian Paints' (APL) consolidated revenues grew 30% to Rs21bn (UBS-e Rs20.1bn), driven by volume growth of ~24% (due to a low base). 9M revenue growth is +19.5%. EBITDA margins declined from 19.6% in Q3 FY10 to 16.4% due to higher RM costs at 59.7% of sales (down 340bps YoY), all other costs were in line. Net profit grew 11% YoY to Rs2.2bn (UBS-e Rs2.2bn).

■ Raw material pressure evident

APL has taken an ~11% price increase in FY11, but RM cost pressures continue to add pressure on margins. APL does a monthly review of its product prices to ensure that margins do not come under pressure; we believe there could be price increases in Q4 given the strong underlying commodity.

■ Expanding the scope of the PPG JV; secular story

APL plans to enhance its relationship with PPG Industries Inc to add depth to their presence in the non-decorative coatings business under the 50:50 JV that they have at present. Increasing disposable income, new construction, and automobile demand are secular drivers for the APL story—we continue to like the investment thesis and maintain our Buy rating on the stock.

■ Valuation: maintain Buy rating

We maintain our Buy rating and price target of Rs3,500. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 9.8% and interim growth of 13.5%.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	54,632	66,809	81,566	99,272	120,440
EBIT (UBS)	5,950	11,441	13,317	16,179	18,194
Net Income (UBS)	4,007	8,347	9,209	11,236	12,600
EPS (UBS, Rs)	41.77	87.02	96.00	117.14	131.36
Net DPS (UBS, Rs)	17.50	27.00	38.40	52.71	65.68

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	11.5	17.1	16.3	16.3	15.1
ROIC (EBIT) %	53.5	87.9	87.9	84.0	78.5
EV/EBITDA (core) x	13.3	11.0	17.2	14.3	12.5
PE (UBS) x	21.6	16.7	27.3	22.4	20.0
Net dividend yield %	2.2	1.9	1.5	2.0	2.5

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs2,622.30 on 24 Jan 2011 21:31 SGT

Sunita Sachdev

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Global Equity Research

India

Chemicals, Specialty

12-month rating **Buy**
Unchanged

12m price target **Rs3,500.00/US\$76.80**
Unchanged

Price **Rs2,622.30/US\$57.54**

RIC: ASPN.BO BBG: APNT IB

24 January 2011

Trading data (local/US\$)

52-wk range	Rs2,963.15-1,761.35/US\$65.69-38.01
Market cap.	Rs252bn/US\$5.52bn
Shares o/s	95.9m (ORD)
Free float	55%
Avg. daily volume ('000)	84
Avg. daily value (m)	Rs227.7

Balance sheet data 03/11E

Shareholders' equity	Rs22.0bn
P/BV (UBS)	11.4x
Net Cash (debt)	(Rs0.06bn)

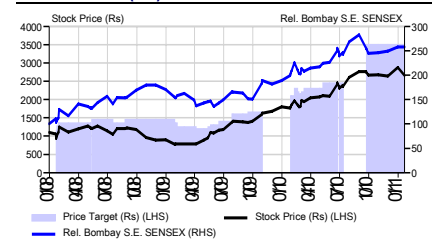
Forecast returns

Forecast price appreciation	+33.5%
Forecast dividend yield	1.5%
Forecast stock return	+35.0%
Market return assumption	13.0%
Forecast excess return	+22.0%

EPS (UBS, Rs)

	03/11E	03/10	Actual
	UBS	Cons.	
Q1	-	-	-
Q2E	-	-	-
Q3E	-	-	-
Q4E	-	-	-
03/11E	96.00	96.00	
03/12E	117.14	117.14	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

Table 1: Consolidated results summary

Rs mn	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Net Sales	13,210	14,249	14,602	17,239	16,200	18,768	18,302	18,108	20,996
Raw materials cost	8,437	8,739	8,191	9,798	9,127	10,464	10,487	10,197	12,535
Staff cost	940	1,000	1,044	965	990	1,365	1,189	1,086	1,115
Other expenditure	2,740	2,720	2,610	3,248	2,902	3,831	3,155	3,509	3,897
Total expenditure	12,117	12,459	11,844	14,011	13,019	15,659	14,831	14,793	17,547
EBITDA	1,093	1,791	2,758	3,228	3,181	3,109	3,471	3,315	3,449
EBITDA margin, %	8.3%	12.6%	18.9%	18.7%	19.6%	16.6%	19.0%	18.3%	16.4%
Profit before tax	946	1,629	2,645	3,838	3,072	3,006	3,344	3,234	3,298
Net profit	590	1,011	1,761	2,684	1,986	1,926	2,222	2,147	2,203

Source: Company data

Table 2: Comparison with corresponding period of prior year

Rs mn	Q3FY10	9MFY10	Q3FY11	9MFY11	Q3FY11 vs Q3FY10	9MFY11 vs 9MFY10
Net Sales	16,200	48,042	20,996	57,406	29.6%	19.5%
Raw materials cost	9,127	27,116	12,535	33,219	37.3%	22.5%
Staff cost	990	2,998	1,115	3,390	12.7%	13.1%
Other expenditure	2,902	8,760	3,897	10,561	34.3%	20.6%
Total expenditure	13,019	38,874	17,547	47,171	34.8%	21.3%
EBITDA	3,181	9,167	3,449	10,235	8.4%	11.6%
EBITDA margin, %	19.6%	19.1%	16.4%	17.8%		
Profit before tax	3,072	9,555	3,298	9,876	7.4%	3.4%
Net profit	1,986	6,431	2,203	6,572	11.0%	2.2%

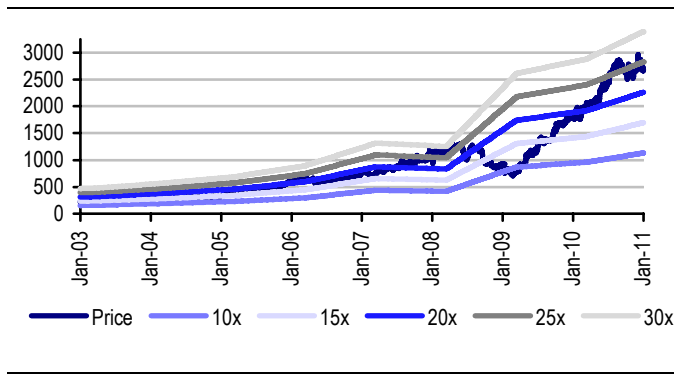
Source: Company data

Table 3: Costs and margins trend

	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Raw material/sales	63.9%	61.3%	56.1%	56.8%	56.3%	55.8%	57.3%	56.3%	59.7%
Staff costs/sales	7.1%	7.0%	7.1%	5.6%	6.1%	7.3%	6.5%	6.0%	5.3%
Oter exp/sales	20.7%	19.1%	17.9%	18.8%	17.9%	20.4%	17.2%	19.4%	18.6%
EBITDA margin	8.3%	12.6%	18.9%	18.7%	19.6%	16.6%	19.0%	18.3%	16.4%
PAT margins	4.5%	7.1%	12.1%	15.6%	12.3%	10.3%	12.1%	11.9%	10.5%

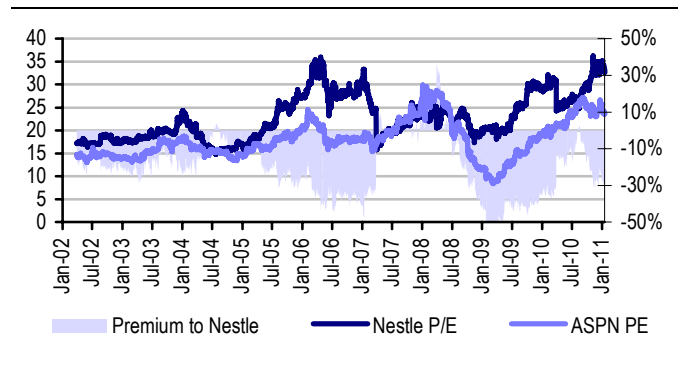
Source: Company data

Chart 1: Asian Paints 1-yr fwd PE band chart



Source: UBS estimates

Chart 2: Asian Paints PE premium/(discount) to Nestle



Source: UBS estimates

Asian Paints Ltd.

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	30,210	36,700	44,072	54,632	66,809	81,566	22.1	99,272	21.7	120,440	21.3
Operating expenses (ex deprecn)	(26,293)	(31,919)	(37,467)	(47,938)	(54,533)	(67,210)	23.2	(81,899)	21.9	(100,929)	23.2
EBITDA (UBS)	3,917	4,781	6,606	6,694	12,276	14,356	16.9	17,373	21.0	19,511	12.3
Depreciation	(606)	(611)	(592)	(744)	(836)	(1,039)	24.3	(1,194)	14.9	(1,317)	10.3
Operating income (EBIT, UBS)	3,311	4,169	6,014	5,950	11,441	13,317	16.4	16,179	21.5	18,194	12.5
Other income & associates	311	368	620	510	1,405	825	-41.3	900	9.1	925	2.8
Net interest	(114)	(189)	(212)	(263)	(285)	(172)	-39.4	(120)	-30.2	(127)	5.6
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	3,507	4,349	6,422	6,197	12,561	13,969	11.2	16,958	21.4	18,992	12.0
Tax	(1,323)	(1,467)	(2,034)	(1,974)	(3,731)	(4,261)	14.2	(5,172)	21.4	(5,793)	12.0
Profit after tax	2,185	2,882	4,388	4,223	8,830	9,709	10.0	11,786	21.4	13,200	12.0
Abnormal items (post-tax)	(86)	(51)	(84)	(35)	9	0	-	0	-	0	-
Minorities / pref dividends	23	(21)	(189)	(216)	(483)	(500)	3.6	(550)	10.0	(600)	9.1
Net income (local GAAP)	2,121	2,810	4,115	3,972	8,356	9,209	10.2	11,236	22.0	12,600	12.1
Net Income (UBS)	2,208	2,861	4,200	4,007	8,347	9,209	10.3	11,236	22.0	12,600	12.1
Tax rate (%)	38	34	32	32	30	31	2.7	31	0.0	31	0.0
Pre-abnormal tax rate (%)	41	37	35	35	33	32	-3.1	32	-0.6	32	-0.5
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	22.12	29.30	42.90	41.41	87.12	96.00	10.2	117.14	22.0	131.36	12.1
EPS (UBS)	23.02	29.83	43.78	41.77	87.02	96.00	10.3	117.14	22.0	131.36	12.1
Net DPS	12.50	13.00	17.00	17.50	27.00	38.40	42.2	52.71	37.3	65.68	24.6
Cash EPS	29.34	36.21	49.95	49.53	95.73	106.84	11.6	129.59	21.3	145.09	12.0
BVPS	67.37	81.09	102.42	125.44	178.27	229.35	28.7	284.82	24.2	339.34	19.1
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	4,519	4,932	6,917	9,051	12,801	15,262	19.2	17,068	11.8	18,251	6.9
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	3,123	3,796	2,749	4,468	799	2,559	220.2	4,755	85.8	7,432	56.3
Other liabilities	(341)	(268)	(391)	(533)	(562)	(562)	0.0	(562)	0.0	(562)	0.0
Operating invested capital	7,301	8,459	9,276	12,986	13,037	17,258	32.4	21,261	23.2	25,121	18.2
Investments	1,641	1,927	2,767	784	6,241	6,241	0.0	6,241	0.0	6,241	0.0
Total capital employed	8,942	10,386	12,042	13,770	19,278	23,499	21.9	27,502	17.0	31,362	14.0
Shareholders' equity	6,463	7,778	9,824	12,032	17,100	21,999	28.7	27,320	24.2	32,549	19.1
Minority interests	600	601	574	756	945	1,445	52.9	1,995	38.1	2,595	30.1
Total equity	7,063	8,379	10,397	12,787	18,044	23,444	29.9	29,314	25.0	35,144	19.9
Net debt / (cash)	1,879	2,008	1,645	983	1,234	55	-95.5	(1,813)	-	(3,782)	108.6
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	8,942	10,386	12,042	13,770	19,278	23,499	21.9	27,502	17.0	31,362	14.0
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	3,311	4,169	6,014	5,950	11,441	13,317	16.4	16,179	21.5	18,194	12.5
Depreciation	606	611	592	744	836	1,039	24.3	1,194	14.9	1,317	10.3
Net change in working capital	(232)	(653)	1,021	(1,656)	3,530	(1,760)	-	(2,196)	24.8	(2,677)	21.9
Other (operating)	197	224	442	583	1,150	825	-28.2	900	9.1	925	2.8
Operating cash flow (pre tax/interest)	3,882	4,353	8,069	5,621	16,956	13,421	-20.8	16,076	19.8	17,759	10.5
Net interest received / (paid)	(114)	(189)	(212)	(263)	(285)	(172)	-39.4	(120)	-30.2	(127)	5.6
Dividends paid	(1,370)	(1,428)	(1,908)	(1,967)	(3,023)	(4,309)	42.5	(5,915)	37.3	(7,370)	24.6
Tax paid	(1,323)	(1,467)	(2,034)	(1,974)	(3,731)	(4,261)	14.2	(5,172)	21.4	(5,793)	12.0
Capital expenditure	(755)	(1,025)	(2,577)	(2,878)	(4,585)	(3,500)	-23.7	(3,000)	-14.3	(2,500)	-16.7
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(451)	(307)	(814)	1,920	(5,319)	0	-	0	-	0	-
Share issues	39	(67)	(162)	204	(265)	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(92)	(129)	363	662	(251)	1,179	-	1,868	58.5	1,970	5.4
FX / non cash items	0	0	0	0	0	0	-	0	-79.4	0	-
Balance sheet (inc)/dec in net debt	(92)	(129)	363	663	(252)	1,179	-	1,868	58.5	1,970	5.4
Core EBITDA	3,917	4,781	6,606	6,694	12,276	14,356	16.9	17,373	21.0	19,511	12.3
Maintenance capital expenditure	(755)	(1,025)	(2,577)	(2,878)	(4,585)	(3,500)	-23.7	(3,000)	-14.3	(2,500)	-16.7
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	3,162	3,756	4,028	3,816	7,691	10,856	41.1	14,373	32.4	17,011	18.4

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

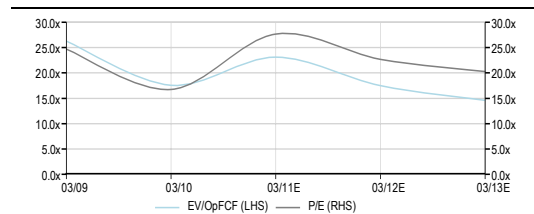
12m price target

Rs3,500.00

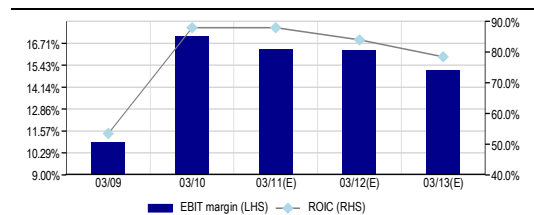
Company profile

Asian Paints is the leading paint manufacturer in India with a 45% share of the organised sector paint market. It ranks among the top 10 decorative coatings companies in the world. Asian Paints operates in 20 countries across the world. International business accounts for 17% of sales. Decorative paints accounted for around 80% of the group's sales in FY08.

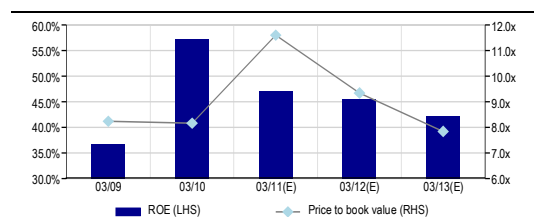
Value (EV/OpFCF & P/E)



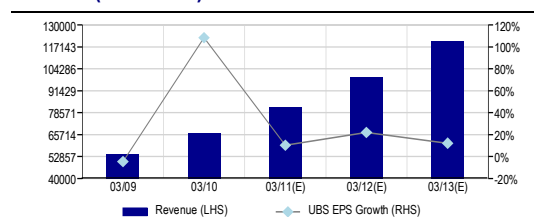
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	22.1	24.9	16.7	27.3	22.4	20.0
P/E (UBS)	21.6	24.7	16.7	27.3	22.4	20.0
P/CEPS	17.7	20.9	15.2	24.5	20.2	18.1
Net dividend yield (%)	2.2	1.7	1.9	1.5	2.0	2.5
P/BV	7.8	8.2	8.2	11.4	9.2	7.7
EV/revenue (core)	1.8	1.8	2.0	3.0	2.5	2.0
EV/EBITDA (core)	13.3	15.0	11.0	17.2	14.3	12.5
EV/EBIT (core)	15.2	16.9	11.8	18.6	15.3	13.5
EV/OpFCF (core)	18.9	26.3	17.6	22.8	17.2	14.4
EV/op. invested capital	8.1	9.0	NM	NM	NM	NM

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	99,084	139,596	251,530	251,530	251,530
+ minority interests	665	850	1,195	1,720	2,295
+ average net debt (cash)	1,314	1,108	645	645	(2,798)
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(784)	(6,241)	(6,241)	(6,241)	(6,241)
Core enterprise value	100,279	135,313	247,129	247,654	244,786

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	20.7	24.0	22.3	22.1	21.7	21.3
EBITDA (UBS)	18.9	1.3	83.4	16.9	21.0	12.3
EBIT (UBS)	21.4	-1.1	92.3	16.4	21.5	12.5
EPS (UBS)	21.8	-4.6	108.3	10.3	22.0	12.1
Cash EPS	18.2	-0.8	93.3	11.6	21.3	12.0
Net DPS	16.5	3.0	54.3	42.2	37.3	24.6
BVPS	20.7	22.5	42.1	28.7	24.2	19.1

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	13.3	12.3	18.4	17.6	17.5	16.2
EBIT / revenue	11.5	10.9	17.1	16.3	16.3	15.1
Net profit (UBS) / revenue	7.8	7.3	12.5	11.3	11.3	10.5

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	53.5	53.5	NM	NM	NM	NM
ROIC post tax	-	34.9	58.5	59.4	56.9	53.3
Net ROE	38.8	36.7	57.3	47.1	45.6	42.1

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	28.0	24.5	NM	NM	NM	NM
Dividend cover (UBS EPS)	2.2	2.4	3.2	2.5	2.2	2.0
Div. payout ratio (% UBS EPS)	45.7	41.9	31.0	40.0	45.0	50.0
Net debt / EBITDA	0.3	0.1	0.1	0.0	NM	NM

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	4.6	4.9	5.1	5.4	5.2	5.2
Revenue / fixed assets	6.9	6.8	6.1	5.8	6.1	6.8
Revenue / net working capital	14.4	17.4	30.4	62.2	30.2	21.0

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	0.8	0.6	0.7	0.8	0.9	0.9
Capex / revenue (%)	3.9	5.3	6.9	4.3	3.0	2.1
Capex / depreciation	2.4	3.9	5.5	3.4	2.5	1.9

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	19.9	8.2	7.2	0.3	(6.6)	(11.6)
Net debt / (net debt + equity)	16.6	7.5	6.7	0.3	(7.1)	(13.1)
Net debt (core) / EV	2.5	1.3	0.8	0.3	0.3	(1.1)

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs2,622.30 on 24 Jan 2011 21:31 SGT Market cap(E) may include forecast share issues/buybacks.

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Analyst

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■ Asian Paints Ltd.

Asian Paints is the leading paint manufacturer in India with a 45% share of the organised sector paint market. It ranks among the top 10 decorative coatings companies in the world. Asian Paints operates in 20 countries across the world. International business accounts for 17% of sales. Decorative paints accounted for around 80% of the group's sales in FY08.

■ Statement of Risk

The key risk to Asian Paints' earnings is the slowdown in Indian construction and re-painting demand. Currency exposures to its international geographies and underlying petro-chemical price fluctuations are a risk to earnings.

UBS Investment Research

Godrej Consumer Products

Conference call takeaways

■ Soaps lose share

Management admitted it has lost market share in the soaps business (40bps QoQ) to ITC and HUL. We believe the company will continue to lose share over the next few quarters or the growth will come at a higher-than-industry ASP, causing margin loss. We have built in a 3% YoY decline in soap sales in FY11E.

■ International business progress disappoints

GCPL's international acquisitions have not fired, given either: 1) weather-related underperformance on sales growth; 2) one-time write-off expenses; or 3) stock write-offs. We believe GCPL's acquisitions will turn around in two to three quarters to provide positive trends in profit contribution.

■ Q4 view

Given commodity prices are not abating, we believe GCPL could continue to lose soap shares as it raises prices further. We believe price increases in hair colour will further slow down volume growth from Q4 FY11 onwards, but a cold winter could see slower sales growth in the insecticides business.

■ Valuation: reiterate Sell rating and price target of Rs415

We reiterate our Sell rating on GCPL. We base our price target of Rs415 on our sum-of-the-parts valuation.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	13,930	20,412	35,963	39,088	43,442
EBIT (UBS)	1,916	3,871	6,690	7,396	8,391
Net Income (UBS)	1,733	3,404	5,209	6,012	6,818
EPS (UBS, Rs)	6.74	11.04	16.10	18.58	21.07
Net DPS (UBS, Rs)	4.00	4.25	6.84	7.43	8.43
Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	16.8	19.0	18.6	18.9	19.3
ROIC (EBIT) %	78.4	71.5	41.6	28.1	31.2
EV/EBITDA (core) x	16.6	13.5	18.5	17.3	14.9
PE (UBS) x	19.7	20.3	24.9	21.6	19.0
Net dividend yield %	3.4	1.9	1.7	1.9	2.1

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs401.05 on 21 Jan 2011 23:38 SGT

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Global Equity Research

India

Household Products, Non-Durable

12-month rating **Sell**
Unchanged

12m price target **Rs415.00/US\$9.11**
Unchanged

Price **Rs401.05/US\$8.80**

RIC: GOCP.BO BBG: GCPL IB

24 January 2011

Trading data (local/US\$)

52-wk range	Rs459.35-235.10/US\$10.01-5.10
Market cap.	Rs130bn/US\$2.85bn
Shares o/s	324m (ORD)
Free float	29%
Avg. daily volume ('000)	55
Avg. daily value (m)	Rs21.6

Balance sheet data 03/11E

Shareholders' equity	Rs18.2bn
P/BV (UBS)	7.1x
Net Cash (debt)	(Rs8.43bn)

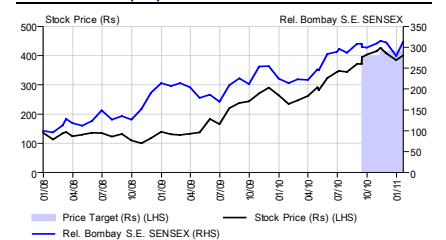
Forecast returns

Forecast price appreciation	+3.5%
Forecast dividend yield	1.5%
Forecast stock return	+5.0%
Market return assumption	13.0%
Forecast excess return	-8.0%

EPS (UBS, Rs)

	03/11E	03/10	Actual
	UBS	Cons.	
Q1E	2.73	-	2.71
Q2E	4.02	-	3.62
Q3E	4.16	4.16	2.76
Q4E	5.31	5.31	3.00
03/11E	16.10	16.10	
03/12E	18.58	18.58	

Performance (Rs)



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Conference call takeaways

Business verticals

Domestic soaps business:

Management mentioned that it lost market share to ITC and HUL in Q3 FY11, mainly due to ITC's aggressive marketing. GCPL's soaps business sales growth was at 6% YoY, implying industry growth at +6%.

Soaps business lost market share by 40bps in Q3

Management believes that palm oil prices have peaked and will stabilise going forward. In addition, the price increases of 3-5% taken in early January this year will support healthy growth in soaps business in Q4 FY11.

Domestic hair colour business:

The growth in the domestic hair colour business was adversely impacted by price increases taken in Q2 FY11. Management expects strong growth in Q4 FY11. Management also mentioned that the company is about to unveil new plans for the hair colour business in the next two quarters.

Slower growth in domestic hair colour business due to price increases implemented in Q2 FY11

Home insecticides:

The home insecticides business continued to maintain a higher-than-industry growth rate. GHPL market share increased to 37% from 33.9% in Q3 FY10. According to management, it has increased its focus on innovation and distribution to help the category grow faster.

Continues to achieve above-industry-average growth rate

Rural focus: key area for growth

With the rising food prices and increase in wages under the National Rural Employment Guarantee Scheme (NREGA), there is increasing disposable income in the hands of rural India, the opportunity which the company is set to tap. The company has developed a sub-stockist methodology that keeps the logistics costs low.

Rural incomes will continue to rise due to increase in food prices and wages under NREGA

International focus:

Megasari: Management indicated that Megasari has been the most successful international acquisition for the company. Q3 FY11 sales were at Rs1.8bn (+2% QoQ), adversely impacted by a weak mosquito season. EBITDA margins at 19% were ~200bps lower than Q2 FY11. According to management, 18-19% EBITDA margins are sustainable for Megasari.

Q3 FY11 is weak mosquito season for Megasari

Other international business: The Africa business was adversely impacted by slower growth in South Africa in Q3 FY11, and a one-time financial charge of Rs30m on account of stock write-offs. The UK business was impacted by a one-time charge of Rs30m on account of warehouse transition-related expenses.

Other international business progress disappointing

Crossover of products:

Management indicated it will most likely fill the gap created by the loss of Ambipur and Kiwi (in process) by bringing in products from its international acquisitions. For example, management is looking to replace Ambipur with Megasari Makmur.

Likely to replace Ambipur with Megasari Makmur

Table 1: GCPL: SOTP valuation

	Country	WACC (%)	Terminal growth (%)	EV (Rs m)
GCPL (standalone)	India	11%	5.0%	71,045
GHPL	India	11%	5.0%	37,674
Megasari	Indonesia	11%	5.0%	18,015
Keyline	UK	11%	3.0%	3,062
Rapidol + Kinky	South Africa	11%	5.0%	5484
Argencos + Issue	Argentina	11%	4.0%	3876
Tura	Nigeria	11%	4.0%	591
GGME	ME	11%	5.0%	254
GCPL (Consolidated)				140,003
Less Net Debt				5,479
Equity Value				134,523
Number of shares				324
Equity value per share				416

Source: UBS estimates

Godrej Consumer Products

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	6,997	9,515	11,026	13,930	20,412	35,963	76.2	39,088	8.7	43,442	11.1
Operating expenses (ex depn)	(5,570)	(7,718)	(8,881)	(11,858)	(16,339)	(29,141)	78.4	(31,424)	7.8	(34,729)	10.5
EBITDA (UBS)	1,427	1,797	2,159	2,108	4,107	7,122	73.4	7,865	10.4	8,912	13.3
Depreciation	(115)	(142)	(182)	(192)	(236)	(432)	82.8	(469)	8.7	(521)	11.1
Operating income (EBIT, UBS)	1,312	1,655	1,977	1,916	3,871	6,690	72.8	7,396	10.5	8,391	13.5
Other income & associates	73	26	23	4	177	150	-15.1	150	0.0	150	0.0
Net interest	(65)	(96)	(126)	172	159	(211)	-	64	-	89	39.1
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	1,321	1,585	1,875	2,092	4,207	6,629	57.6	7,610	14.8	8,631	13.4
Tax	(108)	(195)	(283)	(360)	(803)	(1,420)	76.7	(1,598)	12.6	(1,812)	13.4
Profit after tax	1,213	1,390	1,592	1,733	3,404	5,209	53.0	6,012	15.4	6,818	13.4
Abnormal items (post-tax)	0	51	0	0	0	323	-	0	-	0	-
Minorities / pref dividends	0	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	1,213	1,440	1,592	1,733	3,404	5,532	62.5	6,012	8.7	6,818	13.4
Net Income (UBS)	1,213	1,390	1,592	1,733	3,404	5,209	53.0	6,012	15.4	6,818	13.4
Tax rate (%)	8	12	15	17	19	21	12.2	21	-2.0	21	0.0
Pre-abnormal tax rate (%)	8	12	15	17	19	21	12.2	21	-2.0	21	0.0
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	5.37	6.38	7.05	6.74	11.04	17.10	54.8	18.58	8.7	21.07	13.4
EPS (UBS)	5.37	6.15	7.05	6.74	11.04	16.10	45.8	18.58	15.4	21.07	13.4
Net DPS	3.50	3.75	4.00	4.00	4.25	6.84	60.9	7.43	8.7	8.43	13.4
Cash EPS	5.88	6.78	7.86	7.49	11.81	17.43	47.6	20.03	14.9	22.68	13.2
BVPS	3.43	5.34	6.65	22.15	36.99	56.36	52.4	67.51	19.8	80.15	18.7
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	656	1,489	1,895	1,847	2,172	4,262	96.2	4,575	7.3	4,922	7.6
Net intangible fixed assets	1,045	1,389	1,461	2,582	3,572	19,662	450.5	19,662	0.0	19,662	0.0
Net working capital (incl. other assets)	(402)	(299)	128	584	652	2,511	285.4	2,790	11.1	3,128	12.1
Other liabilities	(98)	(97)	(322)	(380)	(202)	(436)	115.9	(480)	10.2	(545)	13.4
Operating invested capital	1,201	2,481	3,161	4,633	6,194	25,999	319.7	26,547	2.1	27,167	2.3
Investments	10	0	0	75	670	670	0.0	670	0.0	670	0.0
Total capital employed	1,211	2,481	3,161	4,708	6,864	26,669	288.5	27,217	2.1	27,837	2.3
Shareholders' equity	787	1,220	1,716	5,715	9,547	18,238	91.0	21,845	19.8	25,936	18.7
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	787	1,220	1,716	5,715	9,547	18,238	91.0	21,845	19.8	25,936	18.7
Net debt / (cash)	424	1,261	1,445	(1,008)	(2,683)	8,431	-	5,372	-36.3	1,901	-64.6
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	1,211	2,481	3,161	4,708	6,864	26,669	288.5	27,217	2.1	27,837	2.3
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	1,312	1,655	1,977	1,916	3,871	6,690	72.8	7,396	10.5	8,391	13.5
Depreciation	115	142	182	192	236	432	82.8	469	8.7	521	11.1
Net change in working capital	(88)	(368)	(278)	(353)	(133)	5,587	-	(758)	-	(1,004)	32.4
Other (operating)	195	(30)	24	37	235	2,110	798.4	523	-75.2	731	39.8
Operating cash flow (pre tax/interest)	1,534	1,399	1,905	1,792	4,209	14,819	252.1	7,630	-48.5	8,640	13.2
Net interest received / (paid)	(52)	(109)	(133)	84	129	(211)	-	64	-	89	39.1
Dividends paid	(780)	(842)	(841)	(1,002)	(873)	(2,213)	153.4	(2,405)	8.7	(2,727)	13.4
Tax paid	(108)	(195)	(283)	(360)	(803)	(1,420)	76.7	(1,598)	12.6	(1,812)	13.4
Capital expenditure	(1,128)	(648)	(445)	(746)	(719)	(782)	8.7	(869)	11.1	(962)	10.7
Net (acquisitions) / disposals	0	150	0	0	(73)	(26,830)	36595.6	0	-	0	-
Other	(859)	(112)	65	(1,412)	(115)	150	-	150	0.0	150	0.0
Share issues	(48)	0	0	3,795	0	5,310	-	0	-	0	-
Cash flow (inc)/dec in net debt	(1,440)	(357)	269	2,152	1,754	(11,176)	-	2,972	-	3,378	13.6
FX / non cash items	988	(481)	(453)	301	(78)	63	-	87	39.3	93	6.5
Balance sheet (inc)/dec in net debt	(452)	(837)	(184)	2,453	1,675	(11,114)	-	3,059	-	3,471	13.4
Core EBITDA	1,427	1,797	2,159	2,108	4,107	7,122	73.4	7,865	10.4	8,912	13.3
Maintenance capital expenditure	(115)	(142)	(182)	(192)	(236)	(432)	82.8	(469)	8.7	(521)	11.1
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	1,312	1,655	1,977	1,916	3,871	6,690	72.8	7,396	10.5	8,391	13.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Sell

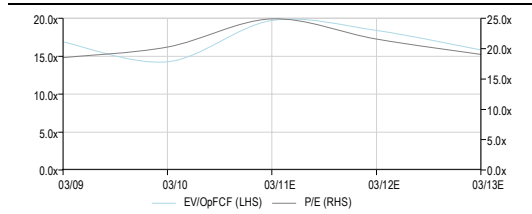
12m price target

Rs415.00

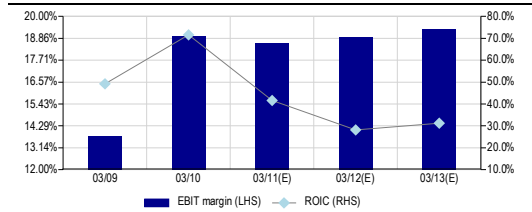
Company profile

Godrej Consumer Products (GCPL) focuses on home care, hair care and personal wash products in Asia, Africa and Latin America. In FY10, personal wash was its largest revenue contributor at 41%, while hair care and home care contributed 20% each. Following the GHPL and Megasari acquisitions, homeware contributed 9% of total revenue in Q1 FY11, while personal wash and hair care contributed 33% and 18%, respectively. GCPL's FY10 turnover was US\$443m, of which US\$365m was from domestic operations (including GHPL) and the remaining US\$79m from international operations.

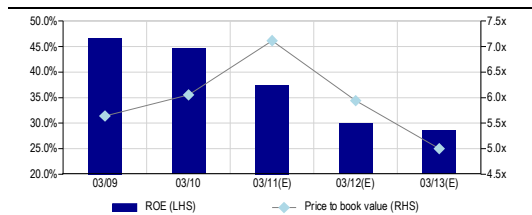
Value (EV/OpFCF & P/E)



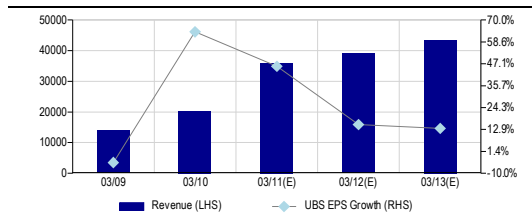
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	19.6	18.5	20.3	23.5	21.6	19.0
P/E (UBS)	19.7	18.5	20.3	24.9	21.6	19.0
P/CEPS	17.8	16.7	19.0	23.0	20.0	17.7
Net dividend yield (%)	3.4	3.2	1.9	1.7	1.9	2.1
P/BV	22.9	5.6	6.1	7.1	5.9	5.0
EV/revenue (core)	3.0	2.3	2.7	3.7	3.5	3.1
EV/EBITDA (core)	16.6	15.4	13.5	18.5	17.3	14.9
EV/EBIT (core)	18.2	16.9	14.3	19.7	18.4	15.8
EV/OpFCF (core)	18.2	16.9	14.3	19.7	18.4	15.8
EV/op. invested capital	NM	8.3	NM	8.2	5.2	4.9

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	32,249	57,797	129,780	129,780	129,780
+ minority interests	0	0	0	0	0
+ average net debt (cash)	219	(1,845)	2,874	6,901	3,636
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(75)	(670)	(670)	(670)	(670)
Core enterprise value	32,393	55,282	131,984	136,011	132,746

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	25.4	26.3	46.5	76.2	8.7	11.1
EBITDA (UBS)	20.4	-2.4	94.8	73.4	10.4	13.3
EBIT (UBS)	20.9	-3.1	102.0	72.8	10.5	13.5
EPS (UBS)	14.2	-4.4	63.8	45.8	15.4	13.4
Cash EPS	14.0	-4.6	57.6	47.6	14.9	13.2
Net DPS	7.5	0.0	6.3	60.9	8.7	13.4
BVPS	78.6	NM	67.0	52.4	19.8	18.7

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	18.4	15.1	20.1	19.8	20.1	20.5
EBIT / revenue	16.8	13.8	19.0	18.6	18.9	19.3
Net profit (UBS) / revenue	14.9	12.4	16.7	14.5	15.4	15.7

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	NM	49.2	71.5	41.6	28.1	31.2
ROIC post tax	-	40.7	57.8	32.7	22.2	24.7
Net ROE	135.3	46.6	44.6	37.5	30.0	28.5

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	-	-	NM	-	-
Dividend cover (UBS EPS)	1.6	1.7	2.6	2.4	2.5	2.5
Div. payout ratio (% UBS EPS)	63.6	59.3	38.5	42.5	40.0	40.0
Net debt / EBITDA	0.2	NM	NM	1.2	0.7	0.2

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	4.8	3.6	3.8	2.2	1.5	1.6
Revenue / fixed assets	4.0	3.6	4.0	2.4	1.6	1.8
Revenue / net working capital	NM	39.2	33.1	22.7	14.7	14.7

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	6.7	5.4	3.5	2.2	2.2	2.2
Capex / depreciation	4.2	3.9	3.0	1.8	1.9	1.8

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	21.1	(17.6)	(28.1)	46.2	24.6	7.3
Net debt / (net debt + equity)	17.4	(21.4)	(39.1)	31.6	19.7	6.8
Net debt (core) / EV	1.9	0.7	(3.3)	2.2	5.1	2.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs401.05 on 21 Jan 2011 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

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■ Godrej Consumer Products

Godrej Consumer Products (GCPL) focuses on home care, hair care and personal wash products in Asia, Africa and Latin America. In FY10, personal wash was its largest revenue contributor at 41%, while hair care and home care contributed 20% each. Following the GHPL and Megasari acquisitions, homecare contributed 9% of total revenue in Q1 FY11, while personal wash and hair care contributed 33% and 18%, respectively. GCPL's FY10 turnover was US\$443m, of which US\$365m was from domestic operations (including GHPL) and the remaining US\$79m from international operations.

■ Statement of Risk

We think the key risks to GCPL's earnings and valuation include intensifying competition, increasing raw material costs and slowing economic growth. With GCPL's expansion in international markets, we believe, the company also has exposure to multiple country and currency risk.

UBS Investment Research

Welspun Corp

Lower shipments; Q4FY11 to improve

■ Lower shipments in 3QFY11; expect robust sales volumes in 4QFY11

In 3QFY11, Welspun (WCL) reported consolidated EBITDA of Rs 3.1 bn, lower on 10.2% Y-o-Y, on lower sales and shipments (down 4% to 163,611 MT) and Rs 590 mn gain in 3QFY11. Blended EBITDA margin was US\$242/MT (benefitted from coatings/others). Depreciation increased 27.7% yoy on new capitalisation, infra business consolidation. PAT at Rs 1.47 bn was lower 12.2% y-o-y. Inventory of 40-50kMT implies robust 4QFY11 sales to meet full year target of 950kMT.

■ Order book at Rs 50 bn; Saudi plant commissioned

WCL's order book was Rs 50 bn or 776kMT of pipes and 40kMT of plates, ensuring 8-9 months visibility. WCL commissioned Saudi plant in 4QFY11 and LSAW at Anjar to start by 1QFY12 and Mandya plant is ramping up well.

■ Management indicates robust industry outlook – many developments

WCL indicated strong industry in next year on 1) US- replacement demand, shale gas; 2) Latin America – Colombia, Peru, Venezuela projects, 3) Europe – niche, quality conscious market an opportunity, WCL invited to bid; 4) Africa – opportunities; 5) Asia – Transcountry/gas pipelines – WCL prequalified with EPC contractors; 5) Middle East – water and O&G projects; local capacity strategic.

■ Valuation: Maintain Buy on fundamentals and PT of Rs 250/share

WCL continues to deliver favourable performance. We maintain Buy and UBS-VCAM based TP of Rs 250. Yet, medium term sentiment will be driven by SEBI order developments. We await more clarity on same.

Highlights (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Revenues	57,395	73,503	75,365	91,585	101,099
EBIT (UBS)	4,915	11,126	11,265	13,009	14,397
Net Income (UBS)	2,135	6,104	6,605	7,363	8,426
EPS (UBS, Rs)	11.51	31.69	32.25	35.88	36.76
Net DPS (UBS, Rs)	1.50	2.00	2.25	2.50	2.75

Profitability & Valuation	5-yr hist av.	03/10	03/11E	03/12E	03/13E
EBIT margin %	11.7	15.1	14.9	14.2	14.2
ROIC (EBIT) %	20.0	28.6	25.3	27.2	29.6
EV/EBITDA (core) x	7.9	4.4	3.1	3.0	2.1
PE (UBS) x	11.3	7.1	5.0	4.5	4.4
Net dividend yield %	0.6	0.9	1.4	1.5	1.7

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs161.60 on 24 Jan 2011 22:02 EST

Ruchi Vora

Analyst

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Global Equity Research

India

Steel

12-month rating **Buy**
Unchanged

12m price target **Rs250.00/US\$5.48**
Unchanged

Price **Rs161.60/US\$3.54**

RIC: WGSR.BO BBG: WGS IB

24 January 2011

Trading data (local/US\$)

52-wk range	Rs292.95-147.85/US\$6.59-3.25
Market cap.	Rs33.1bn/US\$0.72bn
Shares o/s	205m (ORD)
Free float	60%
Avg. daily volume ('000)	540
Avg. daily value (m)	Rs94.3

Balance sheet data 03/11E

Shareholders' equity	Rs31.0bn
P/BV (UBS)	1.1x
Net Cash (debt)	(Rs29.4bn)

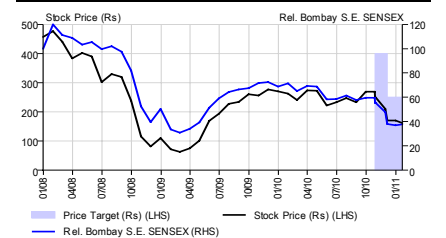
Forecast returns

Forecast price appreciation	+54.7%
Forecast dividend yield	1.5%
Forecast stock return	+56.2%
Market return assumption	13.0%
Forecast excess return	+43.2%

EPS (UBS, Rs)

	03/11E	03/10	Actual
	UBS	Cons.	
Q1E	-	-	-
Q2E	-	-	-
Q3E	-	-	-
Q4E	-	-	-
03/11E	32.25	32.26	
03/12E	35.88	35.88	

Performance (Rs)



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Other conference call takeaways

- Overall management indicated robust industry outlook and many developments likely, as the company is pre-qualified for most projects. Order book break up of 776 KMT of pipes is 285 KMT, 458kMT and 35 KMT of LSAW, HSAW, ERW, respectively. WCL expects to service all market opportunities strategically through its mills in India, US and Middle East. It is also opening local offices for focussed effort. Also, they may unlikely require new capacities in other regions.
- Expect fixed asset growth in Welspun Infra business at ~Rs 1.5 bn, depending on future mix of contracting or privatisation related projects.
- Management guidance for pipes in FY11 was 900-1000kMT, and plates was 500 kMT and 700 KMT in FY11 and FY12, respectively.
- EBITDA margins have been maintained. We believe double jointing/coating has also supported the same.
- Reason for lower shipments was a combination of logistics and other internal issues.
- Gross and net debt was Rs 37.6 bn and Rs 11 bn, respectively

Table 1: WCL's quarterly results (Rs mn)

	3QFY11	3QFY10	Y-o-Y (%)	2QFY11	Q-o-Q (%)
Net revenues	15,862	16,395	-3.2%	18,524	-14.4%
Raw material expenses	9,150	10,097	-9.4%	10,637	-14.0%
Employee costs	855	709	20.7%	885	-3.3%
Other expenses	2,726	2,102	29.7%	3,561	-23.4%
Total expenses	12,732	12,908	-1.4%	15,083	-15.6%
EBITDA	3,130	3,487	-10.2%	3,442	-9.0%
Interest Expense	454	428	6.1%	374	21.4%
Depreciation	653	511	27.7%	615	6.2%
Other Income	24	75	-67.9%	62	-61.5%
Profit before Tax	2,047	2,622	-21.9%	2,515	-18.6%
Taxes	612	954	-35.8%	756	-19.0%
Net income	1,435	1,668	-14.0%	1,760	-18.4%
Minority interest/income from associates	30		NA	19	61.3%
Profit after tax	1,465	1,668	-12.2%	1,778	-17.6%
Reported EPS - Diluted (Rs)	6.7	7.8	-14.1%	8.0	-18.4%

Source: Company, UBS

Welspun Corp

Income statement (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Revenues	18,298	26,834	39,945	57,395	73,503	75,365	2.5	91,585	21.5	101,099	10.4
Operating expenses (ex depn)	(14,256)	(23,552)	(33,389)	(51,048)	(60,317)	(61,923)	2.7	(76,110)	22.9	(84,073)	10.5
EBITDA (UBS)	4,042	3,283	6,555	6,348	13,186	13,443	1.9	15,475	15.1	17,025	10.0
Depreciation	(352)	(476)	(609)	(1,433)	(2,061)	(2,178)	5.7	(2,467)	13.3	(2,628)	6.5
Operating income (EBIT, UBS)	3,690	2,807	5,946	4,915	11,126	11,265	1.3	13,009	15.5	14,397	10.7
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(400)	(617)	(711)	(1,579)	(1,886)	(1,257)	-33.3	(1,853)	47.3	(1,630)	-12.0
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	3,290	2,190	5,236	3,336	9,240	10,008	8.3	11,156	11.5	12,767	14.4
Tax	(290)	(765)	(1,828)	(1,200)	(3,136)	(3,403)	8.5	(3,793)	11.5	(4,341)	14.4
Profit after tax	3,001	1,425	3,408	2,135	6,104	6,605	8.2	7,363	11.5	8,426	14.4
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(23)	(2)	0	0	0	0	0.0	0	0.0	0	0.0
Net income (local GAAP)	2,977	1,424	3,408	2,135	6,104	6,605	8.2	7,363	11.5	8,426	14.4
Net Income (UBS)	2,977	1,424	3,408	2,135	6,104	6,605	8.2	7,363	11.5	8,426	14.4
Tax rate (%)	9	35	35	36	34	34	0.2	34	0.0	34	0.0
Pre-abnormal tax rate (%)	9	35	35	36	34	34	0.2	34	0.0	34	0.0
Per share (Rs)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
EPS (local GAAP)	25.92	10.68	20.87	11.51	31.69	32.25	-9.1	35.88	11.5	36.76	14.4
EPS (UBS)	25.92	10.68	20.87	11.51	31.69	32.25	1.8	35.88	11.2	36.76	2.4
Net DPS	0.50	1.00	1.50	1.50	2.00	2.25	12.5	2.50	11.1	2.75	10.0
Cash EPS	28.98	14.25	24.60	19.23	42.38	42.89	1.2	47.90	11.7	48.22	0.7
BVPS	37.22	48.37	88.17	83.66	155.60	151.16	-2.8	183.96	21.7	229.64	24.8
Balance sheet (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Net tangible fixed assets	10,113	16,493	26,807	36,804	38,333	41,932	9.4	41,027	-2.2	40,646	-0.9
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	1,800	4,034	8,023	1,800	6,838	9,504	39.0	12,167	28.0	13,899	14.2
Other liabilities	(701)	(794)	(1,738)	(2,487)	(3,428)	(4,128)	20.4	(4,828)	17.0	(5,528)	14.5
Operating invested capital	11,212	19,733	33,092	36,117	41,744	47,308	13.3	48,367	2.2	49,017	1.3
Investments	0	256	3,250	1,140	1,596	13,065	718.9	13,065	0.0	13,065	0.0
Total capital employed	11,212	19,989	36,342	37,257	43,339	60,373	39.3	61,432	1.8	62,082	1.1
Shareholders' equity	4,795	6,674	15,672	15,598	29,011	30,954	6.7	37,752	22.0	52,645	39.4
Minority interests	0	(69)	0	0	0	0	0.0	0	0.0	0	0.0
Total equity	4,795	6,604	15,672	15,597	29,011	30,954	6.7	37,752	22.0	52,645	39.4
Net debt / (cash)	6,417	13,384	20,670	21,659	14,328	29,420	105.3	23,680	-19.5	9,437	-60.1
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	11,212	19,989	36,342	37,257	43,339	60,373	39.3	61,432	1.8	62,082	1.1
Cash flow (Rsm)	03/06	03/07	03/08	03/09	03/10	03/11E	% ch	03/12E	% ch	03/13E	% ch
Operating income (EBIT, UBS)	3,690	2,807	5,946	4,915	11,126	11,265	1.3	13,009	15.5	14,397	10.7
Depreciation	352	476	609	1,433	2,061	2,178	5.7	2,467	13.3	2,628	6.5
Net change in working capital	(1,076)	(2,601)	(2,993)	5,058	(6,117)	(2,492)	-59.3	(1,365)	-45.2	(971)	-28.9
Other (operating)	0	0	0	0	0	0	7.7	0	0.0	0	0.0
Operating cash flow (pre tax/interest)	2,966	682	3,562	11,406	7,069	10,950	54.9	14,110	28.9	16,054	13.8
Net interest received / (paid)	(400)	(617)	(711)	(1,579)	(1,886)	(1,257)	-33.3	(1,853)	47.3	(1,630)	-12.0
Dividends paid	0	(164)	(312)	(327)	(477)	(539)	13.1	(600)	11.4	(738)	22.9
Tax paid	(290)	(765)	(1,828)	(1,200)	(3,136)	(3,403)	8.5	(3,793)	11.5	(4,341)	14.4
Capital expenditure	(5,323)	(6,294)	(12,222)	(10,690)	(3,775)	(5,776)	53.0	(1,562)	-73.0	(2,246)	43.8
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	56	(255)	(6,704)	2,178	(494)	(11,470)	2220.8	0	-100.0	0	0.0
Share issues	1,502	477	5,234	894	4,709	36	-99.2	36	0.0	7,205	19979.7
Cash flow (inc)/dec in net debt	(1,512)	(6,938)	(12,980)	679	2,012	(11,459)	-	6,338	-	14,304	125.7
FX / non cash items	(2,597)	(30)	5,695	(1,669)	5,320	(3,633)	-	(598)	-83.5	(61)	-89.7
Balance sheet (inc)/dec in net debt	(4,109)	(6,968)	(7,286)	(989)	7,331	(15,092)	-	5,740	-	14,242	148.1
Core EBITDA	4,042	3,283	6,555	6,348	13,186	13,443	1.9	15,475	15.1	17,025	10.0
Maintenance capital expenditure	(201)	(316)	(364)	(900)	(1,394)	(1,552)	11.4	(1,863)	20.0	(2,006)	7.6
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	3,841	2,967	6,191	5,448	11,792	11,890	0.8	13,612	14.5	15,019	10.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

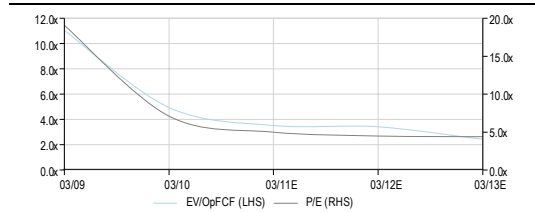
12m price target

Rs250.00

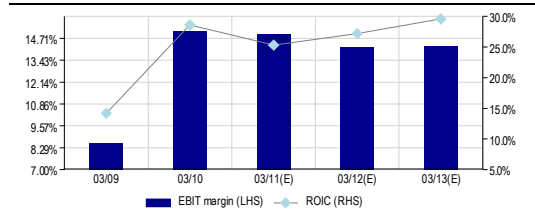
Company profile

Welspun Corp is the flagship company of Welspun Group. It is one of the largest pipe manufacturing companies in the world. Incorporated in 1995, the company offers a complete range of high grade pipes, ranging from half an inch to the 100 inches used to transport oil and gas. In addition to pipe manufacturing it offers coating, bending and double jointing facilities to its customers. The company's subsidiaries include Welspun Pipes, Welspun Natural Resources, Welspun Pipes, Welspun Trading and Welspun Infratech.

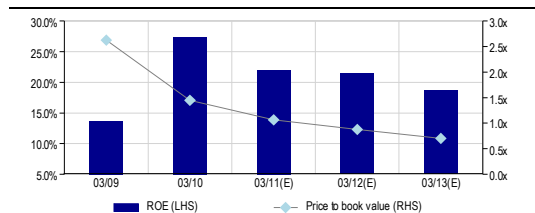
Value (EV/OpFCF & P/E)



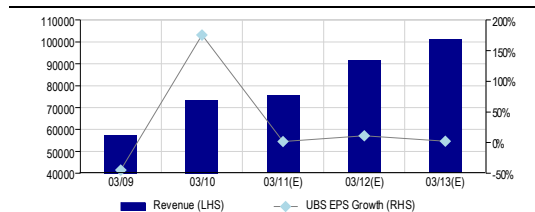
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
P/E (local GAAP)	11.3	19.1	7.1	5.6	5.0	4.4
P/E (UBS)	11.3	19.1	7.1	5.0	4.5	4.4
P/CEPS	7.8	11.4	5.3	3.8	3.4	3.4
Net dividend yield (%)	0.6	0.7	0.9	1.4	1.5	1.7
P/BV	2.4	2.6	1.4	1.1	0.9	0.7
EV/revenue (core)	1.1	1.0	0.8	0.6	0.5	0.4
EV/EBITDA (core)	7.9	9.5	4.4	3.1	3.0	2.1
EV/EBIT (core)	9.3	12.2	5.2	3.7	3.6	2.5
EV/OpFCF (core)	8.7	11.1	5.0	3.5	3.4	2.4
EV/op. invested capital	1.9	1.7	1.5	0.9	1.0	0.8

Enterprise value (Rsm)	03/09	03/10	03/11E	03/12E	03/13E
Average market cap	40,182	42,003	33,050	33,050	33,050
+ minority interests	0	0	0	0	0
+ average net debt (cash)	21,165	17,994	21,874	26,550	16,559
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(1,140)	(1,596)	(13,065)	(13,065)	(13,065)
Core enterprise value	60,207	58,401	41,859	46,535	36,544

Growth (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue	53.3	43.7	28.1	2.5	21.5	10.4
EBITDA (UBS)	74.6	-3.2	107.7	1.9	15.1	10.0
EBIT (UBS)	82.5	-17.3	126.4	1.3	15.5	10.7
EPS (UBS)	38.8	-44.9	175.4	1.8	11.2	2.4
Cash EPS	37.7	-21.9	120.4	1.2	11.7	0.7
Net DPS	-	0.0	33.3	12.5	11.1	10.0
BVPS	44.6	-5.1	86.0	-2.8	21.7	24.8

Margins (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBITDA / revenue	13.7	11.1	17.9	17.8	16.9	16.8
EBIT / revenue	11.7	8.6	15.1	14.9	14.2	14.2
Net profit (UBS) / revenue	7.4	3.7	8.3	8.8	8.0	8.3

Return on capital (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT ROIC (UBS)	20.0	14.2	28.6	25.3	27.2	29.6
ROIC post tax	-	9.1	18.9	16.7	17.9	19.5
Net ROE	32.4	13.7	27.4	22.0	21.4	18.6

Coverage ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
EBIT / net interest	-	3.1	5.9	9.0	7.0	8.8
Dividend cover (UBS EPS)	-	7.7	15.8	14.3	14.4	13.4
Div. payout ratio (% , UBS EPS)	-	13.0	6.3	7.0	7.0	7.5
Net debt / EBITDA	3.1	3.4	1.1	2.2	1.5	0.6

Efficiency ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Revenue / op. invested capital	1.7	1.7	1.9	1.7	1.9	2.1
Revenue / fixed assets	1.9	1.8	2.0	1.9	2.2	2.5
Revenue / net working capital	10.0	12.2	17.9	9.3	8.5	7.8

Investment ratios (x)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
OpFCF / EBIT	1.1	1.1	1.1	1.1	1.0	1.0
Capex / revenue (%)	23.8	18.6	5.1	7.7	1.7	2.2
Capex / depreciation	NM	7.5	1.8	2.7	0.6	0.9

Capital structure (%)	5Yr Avg	03/09	03/10	03/11E	03/12E	03/13E
Net debt / total equity	NM	NM	49.4	95.0	62.7	17.9
Net debt / (net debt + equity)	58.6	58.1	33.1	48.7	38.5	15.2
Net debt (core) / EV	33.0	35.2	30.8	52.3	57.1	45.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs161.60 on 24 Jan 2011 22:02 EST Market cap(E) may include forecast share issues/buybacks.

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■ Welspun Corp

Welspun Corp is the flagship company of Welspun Group. It is one of the largest pipe manufacturing companies in the world. Incorporated in 1995, the company offers a complete range of high grade pipes, ranging from half an inch to the 100 inches used to transport oil and gas. In addition to pipe manufacturing it offers coating, bending and double jointing facilities to its customers. The company's subsidiaries include Welspun Pipes, Welspun Natural Resources, Welspun Pipes, Welspun Trading and Welspun Infratech.

■ Statement of Risk

FX fluctuations, sharp steel price volatility (70% of the cost of pipe manufacturing), unrelated diversification, higher competition and a slowdown in global pipeline capex are the main risks to pipe companies and our estimates.

UBS Investment Research
Asia Oil Explorer

Asia refining margins reach 22-month high

■ Refining margins at highest level since Feb 2009

The Reuters Singapore complex refining margin index averaged US\$7.6/bbl last week, up from US\$6.3/bbl the previous week. Diesel and fuel oil spread versus Dubai were up US\$1.8/bbl and US\$1.2/bbl, respectively WoW, while gasoline spread rose US\$0.4/bbl to US\$14.2/bbl. PX spread (to naphtha) rose 5.3% to close at US\$774/t, while benzene spread rose 8.6% to close at US\$271/t.

■ US crude stocks fall for the sixth week

Brent prices fell 1.2%, ending last week at US\$97.0/bbl, while WTI crude oil prices fell 3.9%, ending last week at US\$88.0/bbl. Oil rose towards the end of week after renewed confidence that the European debt crisis could be solved pushed the dollar to a two-month low against the euro. According to the US Department of Energy (DOE) for the week ended 14 January, crude inventories rose 2.6mmbbls to 335.7mmbbls vs. Reuters' consensus of a 0.6mmbbls draw. Products inventories rose more than expected, with gasoline stocks piling up by 4.4mmbbls and distillate stocks by 1.0mmbbls.

■ Integrated stocks have outperformed in the past month

For the month ended 21 January and based on simple average performance, integrated stocks in Asia under UBS coverage rose 2.1%, while, on an average, refining and E&P stocks fell 2.5% and 3.8%, respectively.

■ Top picks

Our Most Preferred stocks in Asia are PetroChina (0857.HK), SinoTech, Essar Oil, Siam Cement, S-Oil, and Nan Ya Plastics.

24 January 2011
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Recent changes in ratings, price targets, and earnings forecasts

Name	Reuters code	New rating	Old rating	Currency	New PT	Old PT	EPS est	Date
Petronas Chemicals	PCGB.KL	Buy	Not rated	RM	7.3	-	-	21 Jan
Aban Offshore	ABAN.BO	Buy	Sell	INR	1,216	1,310	Down	11 Jan
S-Oil	010950.KS	Buy	Buy	Won	110,000	95,000	Up	06 Jan
PTT Public	PTT.BK	Buy	Buy	Bt	394	363	Up	04 Jan
PTT E&P	PTTE.BK	Neutral	Neutral	Bt	180	164	Up	04 Jan
HPCL	HPCL.BO	Neutral	Neutral	INR	440	554	-	20 Dec
Cairn India	CAIL.BO	Neutral	Neutral	INR	375	355	Up	13 Dec
ONGC	ONGC.BO	Buy	Neutral	INR	1,600	1,475	Up	13 Dec
PetroChina	0857.HK	Buy	Buy	HK\$	12	11	Up	10 Dec

Source: UBS estimates

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Weekly indicators

Table 1: Current oil prices and percentage change during the period

US\$/bbl	21 Jan	1W	1M	3M	6M	12M
Brent	97.0	-1.2%	4.1%	17.6%	26.1%	31.8%
WTI	88.0	-3.9%	-1.4%	9.0%	11.7%	16.1%
Tapis	103.4	-1.0%	9.1%	14.5%	28.2%	29.5%
Dubai	92.6	-0.4%	2.6%	13.6%	24.7%	22.4%
Duri	98.8	0.0%	10.4%	16.5%	32.3%	30.4%
Daqing	101.3	-0.8%	9.6%	19.3%	34.8%	33.1%
Cinta	99.5	0.2%	10.9%	18.1%	32.8%	32.0%

Source: Bloomberg

Table 2: Current oil price (discount)/premium to Brent versus historical

US\$/bbl	21 Jan	1W	1M	3M	6M	12M
WTI	(9.0)	(6.6)	(4.0)	(1.7)	1.9	2.2
Tapis	6.4	6.3	1.6	7.8	3.8	6.2
Dubai	(4.4)	(5.1)	(2.9)	(1.0)	(2.6)	2.1
Duri	1.9	0.7	(3.6)	2.4	(2.2)	2.2
Daqing	4.4	4.1	(0.6)	2.5	(1.7)	2.6
Cinta	2.5	1.1	(3.5)	1.8	(2.0)	1.8

Source: Bloomberg

Table 3: Current refining margins and refined product spreads (compared to Dubai crude) versus historical

US\$/bbl	21 Jan	1W	1M	3M	6M	12M
Gasoline 95	13.6	14.7	12.8	9.9	11.6	12.6
Diesel	16.5	16.0	12.4	12.9	13.3	7.8
Jet-kero	18.6	17.4	13.5	14.0	14.2	8.5
Fuel oil	(8.4)	(8.9)	(9.6)	(6.2)	(2.6)	(0.5)
LPG	(20.7)	(16.7)	(6.6)	(4.4)	(21.4)	(15.1)
Naphtha	1.8	1.9	4.7	2.6	(2.5)	2.8
Complex margin	7.6	7.4	5.2	6.7	5.4	5.4
Simple margin	2.0	1.5	0.0	3.0	1.9	2.3

Source: Bloomberg, Reuters

Table 4: Current chemical spreads and percentage change during the period*

US\$/t	21 Jan	1W	1M	3M	6M	12M
Ethylene-naphtha	394	2.4%	20.5%	46.0%	81%	-32.6%
HDPE-ethylene	45	12.5%	12.5%	-79.5%	-70%	NA
HDPE-naphtha	439	3.3%	19.7%	-10.4%	19%	-21.6%
Propylene-naphtha	499	4.5%	13.6%	0.3%	17%	-5.8%
PP-propylene	170	1.5%	15%	5%	143%	466.7%
PP-naphtha	669	3.7%	14.0%	1.4%	35%	19.6%
PVC-VCM	279	0.0%	7.7%	-7.0%	60%	-19.0%
VCM-EDC	-64	NA	NA	NA	NA	NA
PVC-EDC	214	0.0%	15.1%	6.1%	80%	-48.6%
Benzene-naphtha	271	8.6%	110.1%	51%	36%	-17.6%
SM-benzene-ethylene	149	29.8%	-2.0%	-24%	115%	48%
PS-SM	103	-25.1%	-16.9%	-38.7%	-30%	-15.6%
MEG-ethylene	436	2.8%	25.1%	7%	123%	64%
PX-naphtha	774	5.3%	51.2%	40.1%	226%	86.8%
PTA (contract) - PX	61	-54.5%	-78%	-50.6%	-84%	-67.1%

Source: Thomson DataStream

Quarterly indicators

Table 5: Quarterly average oil prices

(US\$/bbl)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111
Brent	96.5	122	116	56.2	45.0	59.2	68.3	74.9	76.8	78.7	76.4	86.9	95.9
WTI	97.8	124	119	58.6	43.0	59.6	68.1	76.1	78.8	77.9	76.0	85.2	90.2
Tapis	102	129	124	57.4	47.7	61.2	72.2	79.3	82.1	81.3	81.2	92.3	100.7
Dubai	91.0	117	114	54.0	44.5	59.0	68.0	75.4	76.0	77.9	74.1	84.6	91.9
Duri	87.7	113	106	40.8	36.1	53.9	65.6	72.2	77.2	73.3	73.9	87.0	95.5
Daqing	92.0	115	111	48.7	40.3	58.3	68.4	75.0	79.7	76.7	76.2	87.9	98.4
Cinta	90.0	113	108	46.1	37.7	56.1	67.2	72.9	78.5	74.0	75.0	86.4	95.9
Minas	93.9	117	114	51.3	42.9	60.5	69.6	77.0	80.9	79.4	77.5	89.3	100.9

Source: Bloomberg

Table 6: Quarterly average oil price (discount)/ premium to Brent

(US\$/bbl)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111
WTI	1.2	1.8	2.7	2.4	(2.0)	0.4	(0.1)	1.1	2.0	(0.8)	(0.4)	(1.7)	(5.7)
Tapis	5.3	7.2	7.7	1.2	2.8	2.0	4.0	4.4	5.3	2.6	4.8	5.4	4.7
Dubai	(5.5)	(5.6)	(2.2)	(2.3)	(0.5)	(0.2)	(0.3)	0.5	(0.8)	(0.8)	(2.3)	(2.4)	(4.0)
Duri	(8.8)	(8.7)	(9.5)	(15.5)	(8.9)	(5.3)	(2.7)	(2.7)	0.4	(5.4)	(2.5)	0.1	(0.5)
Daqing	(4.6)	(6.7)	(4.8)	(7.5)	(4.7)	(0.9)	0.2	0.0	2.9	(2.0)	(0.2)	1.0	2.5
Cinta	(6.5)	(8.7)	(8.1)	(10.2)	(7.3)	(3.1)	(1.0)	(2.0)	1.7	(4.7)	(1.4)	(0.5)	(0.0)
Minas	(2.6)	(4.6)	(1.6)	(4.9)	(2.1)	1.3	1.4	2.1	4.1	0.7	1.1	2.4	4.9

Source: Bloomberg

Table 7: Quarterly average Singapore refining margins and refined product spreads (compared to Dubai crude)

(US\$/bbl)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111
Naphtha	3.8	(3.1)	(3.9)	(14.5)	(0.4)	(2.8)	(1.5)	(1.3)	2.2	(0.7)	(1.6)	3.4	3.4
Gasoline	13.7	13.1	6.0	3.0	10.5	9.4	8.9	5.2	12.4	9.5	8.5	10.8	14.2
Jet-Kero	22.7	37.5	28.9	21.0	10.7	7.5	7.1	7.3	9.2	11.7	12.6	14.1	16.8
Diesel	22.9	37.5	25.8	16.6	8.6	7.1	6.9	6.1	8.8	11.4	12.2	12.9	15.5
Fuel oil	(15.3)	(21.8)	(8.1)	(7.2)	(4.4)	(5.1)	(2.4)	(3.9)	(2.5)	(6.0)	(3.9)	(7.1)	(8.9)
LPG	(19.3)	(39.4)	(38.6)	(15.0)	(6.7)	(22.3)	(21.1)	(15.6)	(13.9)	(17.1)	(18.4)	(9.3)	(15.7)
Complex Margin	7.0	8.1	5.8	3.8	5.5	4.1	3.1	1.9	4.9	3.7	4.2	5.5	6.8
Simple Margin	(0.3)	(0.7)	1.6	1.1	1.7	0.7	0.5	(0.3)	1.3	(0.0)	1.1	1.1	1.0

Source: Bloomberg, Reuters

Table 8: Quarterly average chemical spreads

(US\$/tonne)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111
Ethylene-Naphtha	452	437	441	216	244	265	378	327	563	449	296	311	359
HDPE-Ethylene	138	123	114	284	222	302	146	100	(92)	(35)	76	66	(6)
HDPE-Naphtha	655	633	627	529	499	606	572	477	534	471	419	432	414
Propylene-Naphtha	369	489	533	249	258	349	452	387	521	511	487	451	457
PP-Propylene	218	143	190	232	169	198	65	44	21	49	59	123	142
PP-Naphtha	612	662	753	493	440	564	538	452	567	585	569	598	625
PVC-VCM	280	346	372	94	235	265	241	251	327	254	210	272	267
VCM-EDC	103	154	93	82.1	87	(6)	(162)	(7)	(7)	(85)	(62)	(96)	(64)
PVC-EDC	386	505	468	179.0	324.5	259	74	244	320	167	146	173	200
Benzene-Naphtha	195	197	222	133	13.8	171	246	197	262	230	199	182	224
SM-Benzene-ethylene	163	138	124	125	181	130	111	61	155	205	106	139	117
PS-SM	138	137	234.2	327.1	144	194	192	206	175	152	217	221	199
MEG-ethylene	408	228	77.0	190	103	92	116	180	202	137	191	319	406
PX-Naphtha	314	405	411	368	447	578	435	346	345	295	282	468	626
PTA (Contract) - PX	81.2	25.8	277	400	93.0	84	161	177	263	304	266	197	188

Note: All quarterly average chemical prices are for Far East Asia, except for EDC prices, which are for West Europe.

Source: Thomson DataStream

Table 9: Quarterly average chemical prices

(US\$/tonne)	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111
Naphtha	856	1,024	995	349	399	497	592	667	707	693	645	790	859
Ethylene	1,308	1,460	1,437	565	644	754	971	993	1,270	1,141	941	1,100	1,217
HDPE	1,511	1,656	1,622	878	898	1,100	1,165	1,143	1,241	1,164	1,065	1,222	1,273
MEG	1,193	1,104	939	529	489	548	694	776	964	822	756	979	1,137
Propylene	1,225	1,512	1,528	598	657	842	1,041	1,053	1,228	1,204	1,132	1,240	1,316
Polypropylene	1,468	1,686	1,748	842	840	1,059	1,130	1,118	1,274	1,277	1,214	1,388	1,484
Styrene Monomer	1,378	1,520	1,664	1,029	645	880	1,055	1,033	1,291	1,267	1,049	1,228	1,328
Polystyrene	1,443	1,586	1,662	964	804	1,024	1,190	1,185	1,399	1,353	1,211	1,386	1,458
Paraxylene	1,170	1,429	1,406	717	847	1,078	1,031	1,013	1,052	988	927	1,258	1,485
PTA	865	983	1,219	880	660	799	851	855	968	966	889	1,040	1,183
Benzene	1,051	1,221	1,218	482	413	661	839	864	969	923	845	971	1,083
PVC	1,044	1,169	1,196	680	646	724	881	858	991	964	916	977	993
VCM	742	799	800	569	399	450	623	590	644	689	686	684	705
EDC	394	398	436	300	193	282	484	368	402	478	462	481	475

Note: All quarterly average chemical prices are for Far East Asia except for EDC prices, which are for West Europe.

Source: Thomson DataStream

UBS forecasts

Table 10: Oil prices, naphtha price, and refining forecasts

US\$/bbl	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
WTI	25.9	25.7	30.8	41.0	56.4	66.1	72.2	100	61.7	79.3	85.0	85.0
Brent	24.4	25	28.9	38.2	54.0	65.5	72.7	98	61.8	79.8	85.0	85.0
Naphtha (US\$/t)	215	222	268	368	460	561	670	805	539	634	671	671
Complex margin	1.9	1.6	3.2	6.7	6.8	5.4	7.6	6.0	3.7	4.2	4.4	4.4

Source: Thomson DataStream, Reuters, Bloomberg, UBS estimates

Table 11: Far East spot petrochemical spread forecasts

Spreads (US\$/t)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010E	2011E	2012E
Ethylene-Naphtha	225	193	205	549	431	575	477	386	304	415	425	445
Propylene-Naphtha	186	238	294	443	478	540	418	408	362	490	510	525
LDPE-Naphtha	396	366	415	718	641	668	749	765	600	676	703	738
LDPE-Ethylene	172	173	210	169	210	92	272	379	296	230	245	260
HDPE-Naphtha	351	298	347	564	555	652	624	610	538	477	540	581
HDPE-Ethylene	126	105	142	15	124	76	147	224	234	10	60	80
PP-Naphtha	304	350	429	574	590	663	636	628	498	557	594	629
PP-Propylene	110	102	124	115	93	100	195	196	119	45	60	80
PVC-VCM	142	115	156	206	70	68	258	272	248	210	255	270
VCM-EDC-Ethylene	116	94	110	93	210	173	56	112	28	20	40	65
PVC-Ethylene	281	352	391	435	372	265	373	444	372	417	452	465
Benzene-Naphtha	71	130	189	451	376	328	361	185	157	230	240	255
SM-Benzene-Ethylene	130	208	200	159	139	159	167	139	150	145	155	160
PS-SM	109	67	97	94	105	61	114	145	108	180	185	210
ABS	397	279	299	356	412	413	499	546	454	615	630	645
MEG-Ethylene	173	181	372	390	330	170	403	226	124	175	190	220
PX-Naphtha	209	202	355	443	442	599	467	372	450	315	370	420
PTA-PX	279	221	158	167	207	140	140	191	130	245	255	235

Source: Thomson DataStream, UBS estimates

UBS forecast tracker

Chart 1: Brent (US\$/bbl)

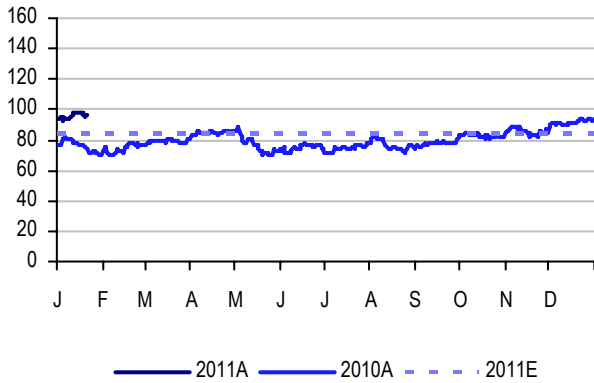


Chart 2: Singapore complex refining margin (US\$/bbl)

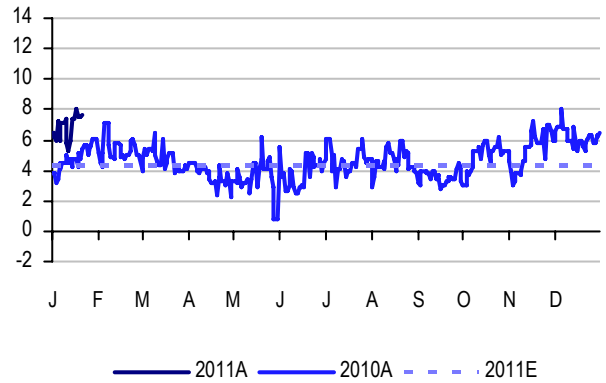


Chart 3: Ethylene-naphtha spread (US\$/bbl)

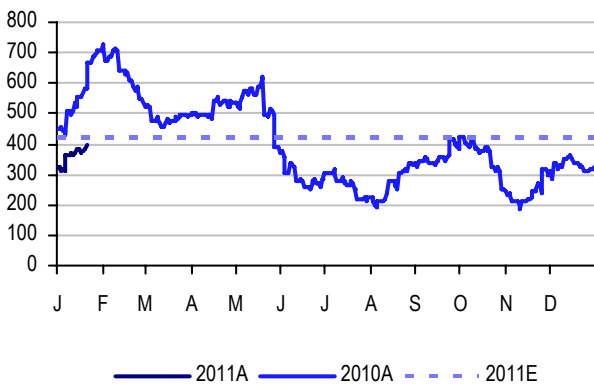


Chart 4: HDPE-naphtha spread (US\$/bbl)

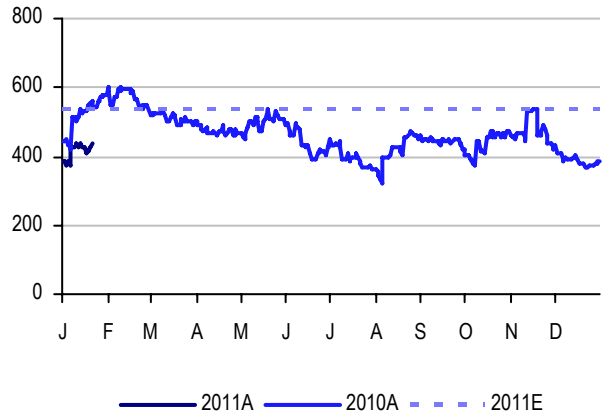


Chart 5: PX-naphtha spread (US\$/bbl)

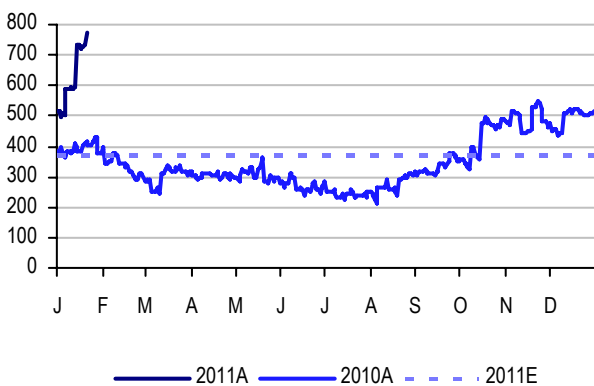
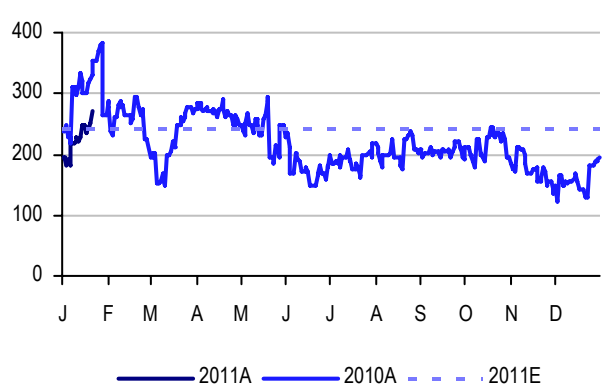


Chart 6: Benzene-naphtha spread (US\$/bbl)



Source for all charts on this page: Bloomberg, Reuters, Thomson DataStream, UBS estimates

Crude oil price and spread

Chart 7: Dubai, Brent, WTI—3 year (US\$/bbl)

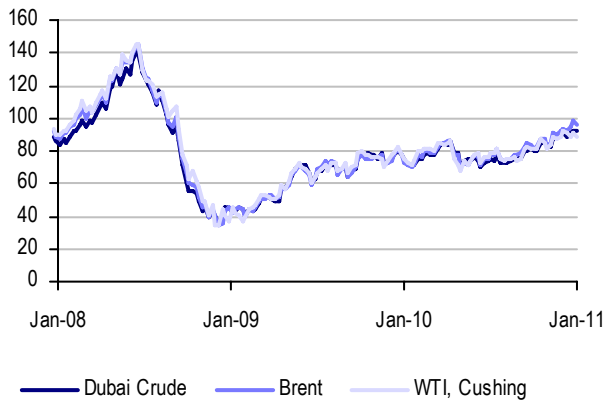


Chart 8: Dubai, Brent, WTI—1 year (US\$/bbl)

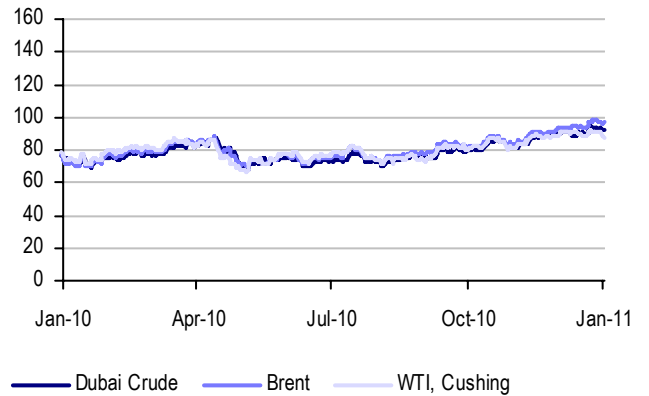


Chart 9: Benchmark crude spreads—3 year (US\$/bbl)

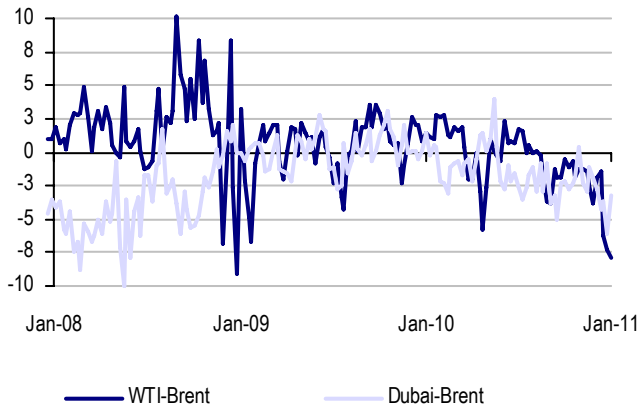


Chart 10: Benchmark crude spreads—1 year (US\$/bbl)

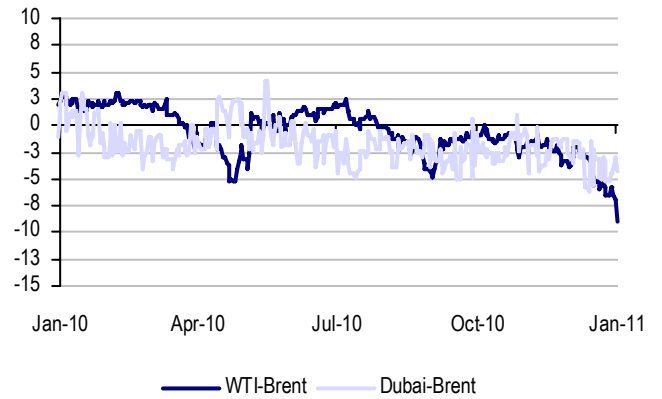
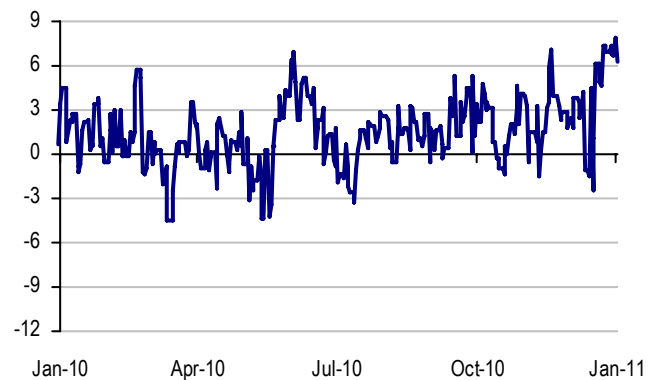


Chart 11: Minas – Spot price—3 year (US\$/bbl)



Chart 12: Minas premium(discount) to Brent—1 year (US\$/bbl)



Source for all charts on this page: Bloomberg

Chart 13: Duri – Spot price—3-year (US\$/bbl)

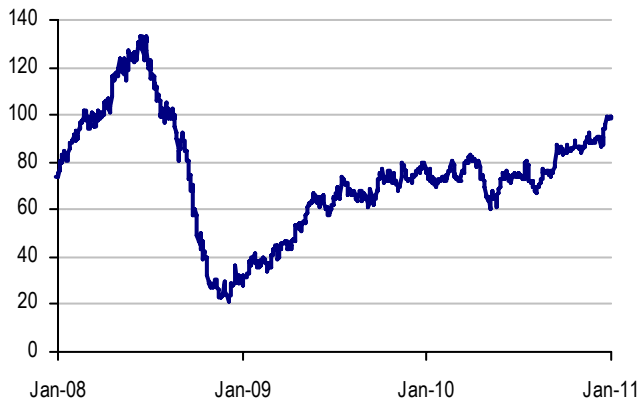


Chart 14: Duri premium/(discount) to Brent—1-year (US\$/bbl)

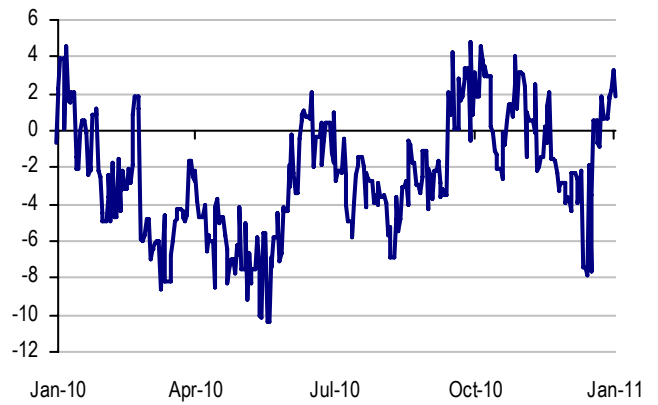


Chart 15: Daqing – Spot price—3 year (US\$/bbl)



Chart 16: Daqing premium/(discount) to Brent—1 year (US\$/bbl)

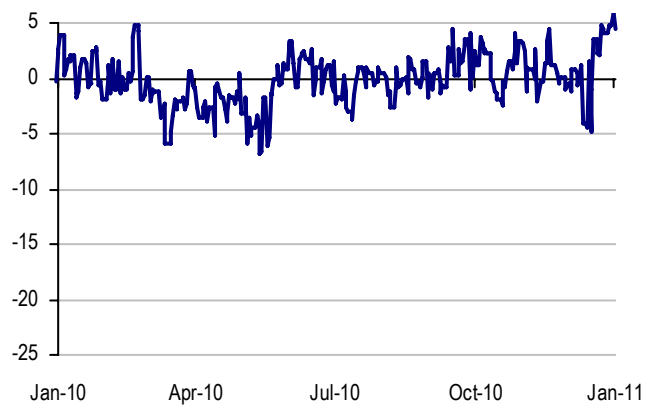
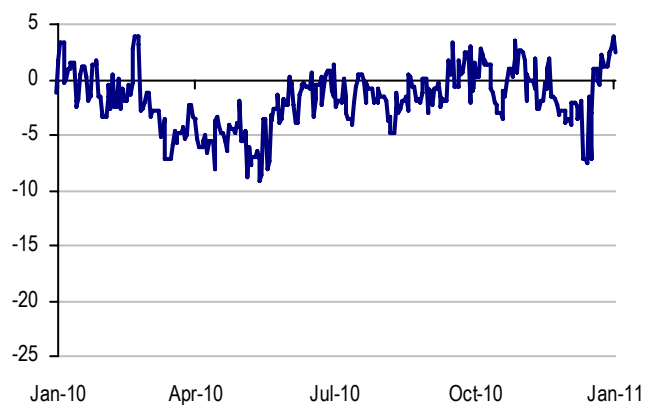


Chart 17: Cinta – Spot price—3 year (US\$/bbl)



Chart 18: Cinta premium/(discount) to Brent—1 year (US\$/bbl)



Source for all charts on this page: Bloomberg

Chart 19: ArabLight – Spot price—3-year (US\$/bbl)



Chart 20: Arab Light premium/(discount) to Brent—1-year (US\$/bbl)



Chart 21: Arab Heavy – Spot price—3 year (US\$/bbl)



Chart 22: Arab Heavy premium/(discount) to Brent—1 year (US\$/bbl)

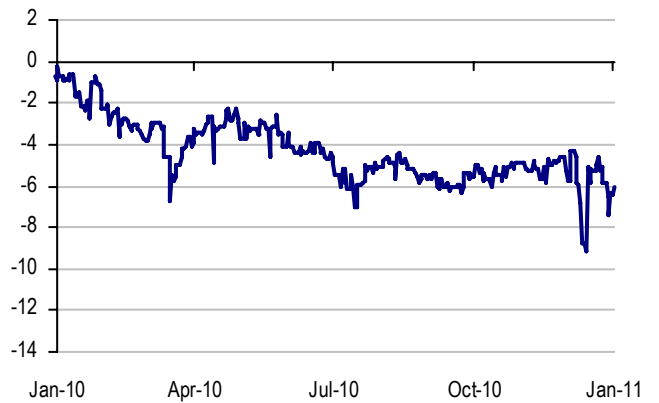


Chart 23: Maya – Spot price—3 year (US\$/bbl)

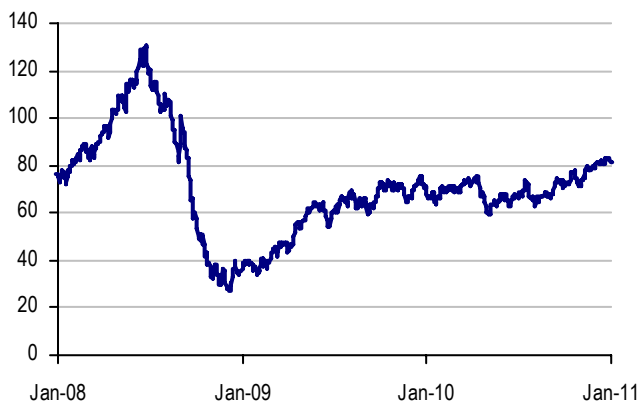
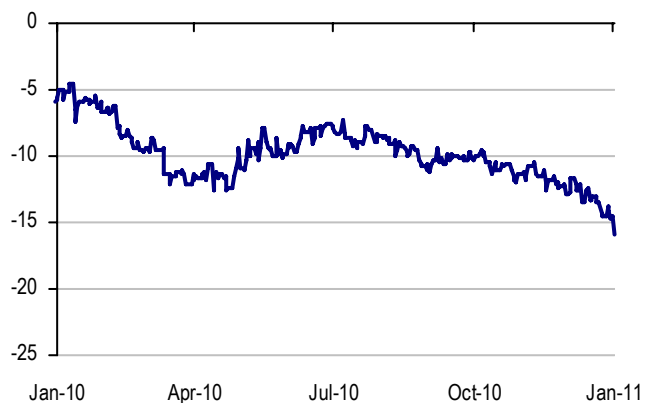


Chart 24: Maya premium/(discount) to Brent—1 year (US\$/bbl)



Source for all charts on this page: Bloomberg

Refining margins and spreads

Chart 25: Singapore GRM (US\$/bbl)—3 year *

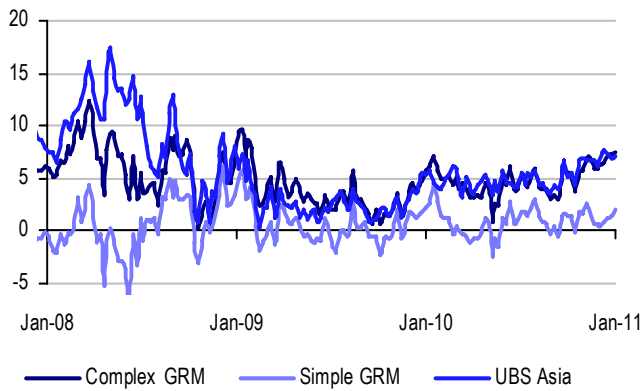


Chart 26: Fuel oil-Dubai spread (US\$/bbl)—3 year

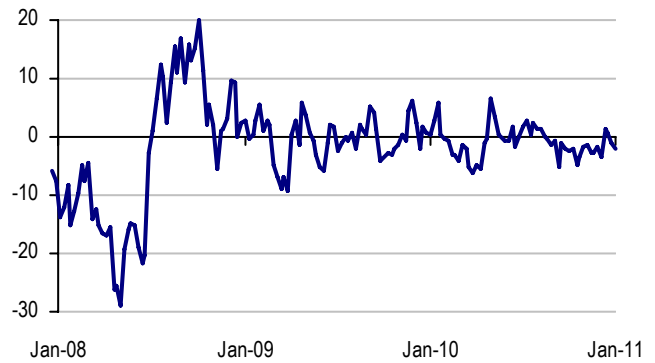


Chart 27: Naphtha-Dubai spread (US\$/bbl)—3 year



Chart 28: Gasoline-Dubai spread (US\$/bbl)—3 year

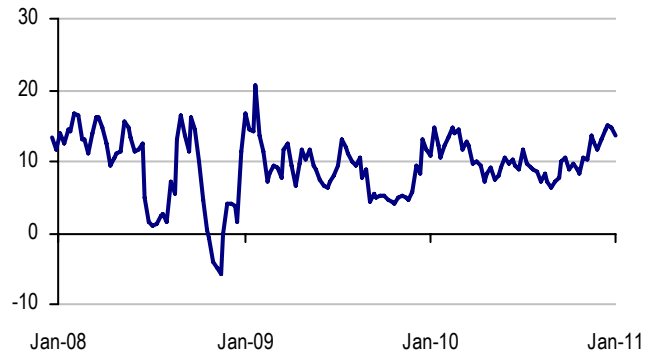


Chart 29: Diesel-Dubai spread (US\$/bbl)—3 year

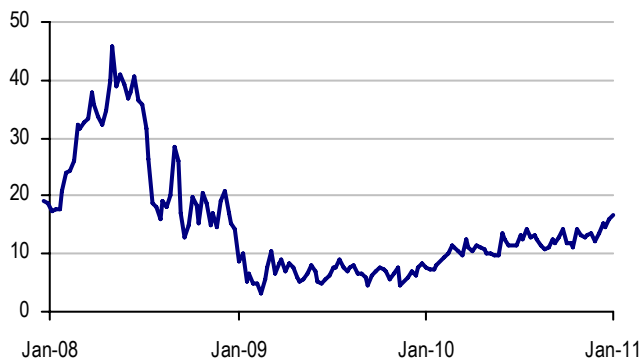
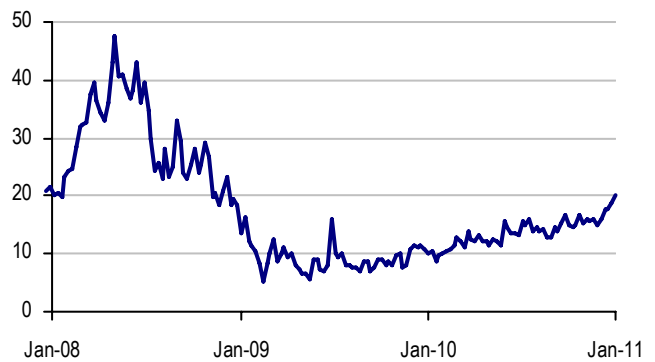


Chart 30: Jet-kero- Dubai spread (US\$/bbl)—3 year



Note: We have calculated the UBS Asia refining margin based on 25% Brent and 75% Dubai crude oil and assigned weights to diesel, jet-kero, gasoline, naphtha, fuel oil and LPG as 38%, 12%, 19%, 13%, 13% and 5%, respectively.

Source for all charts on this page: Bloomberg, Reuters. UBS estimates

Refinery throughput

Chart 31: US refinery throughput (mbpd)

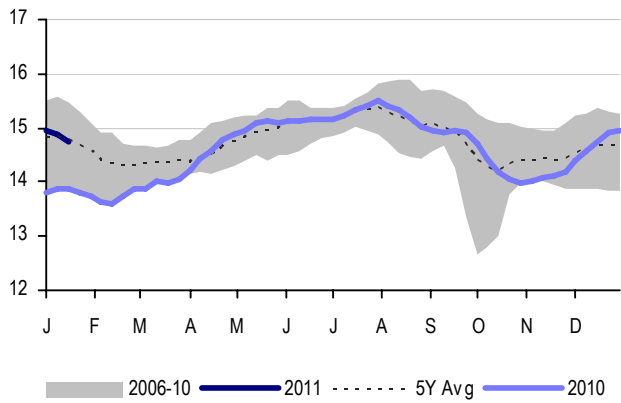


Chart 32: Japan refinery throughput (kbpd)

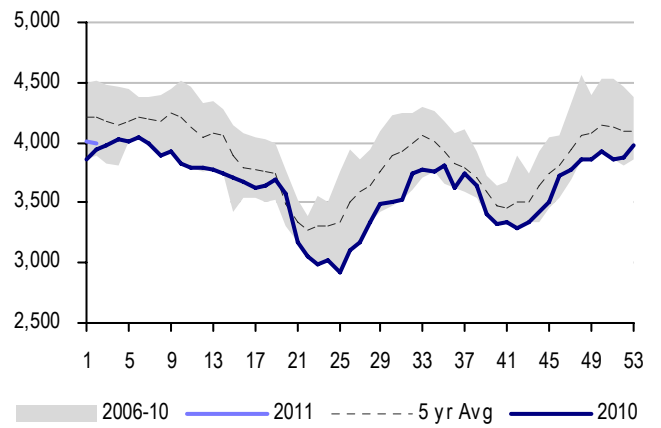
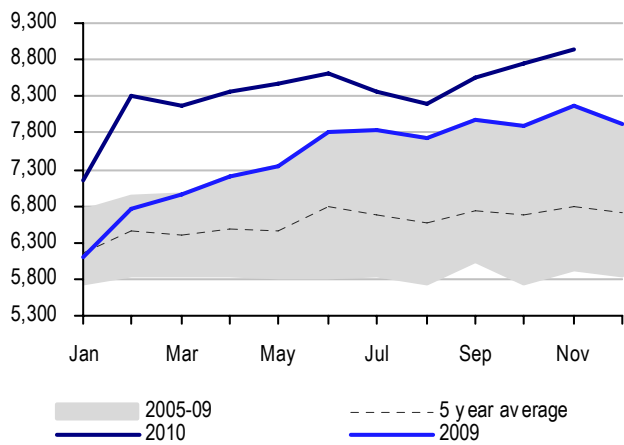


Chart 33: China refinery throughput (kbpd)



Source for all charts on this page: US Department of Energy, Reuters, Petroleum Association of Japan

US oil product inventory

Chart 34: Crude oil inventory—days of demand cover

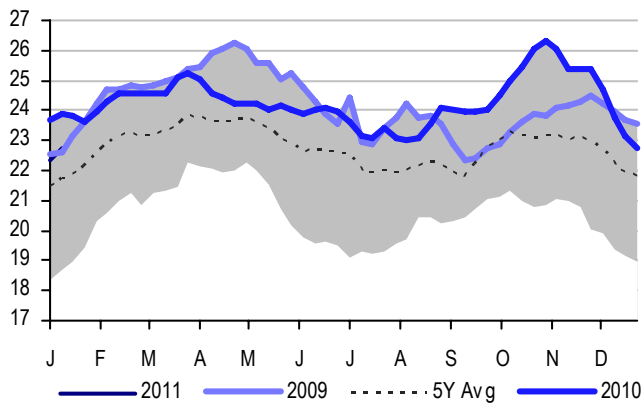


Chart 35: Crude oil inventory (million barrels)

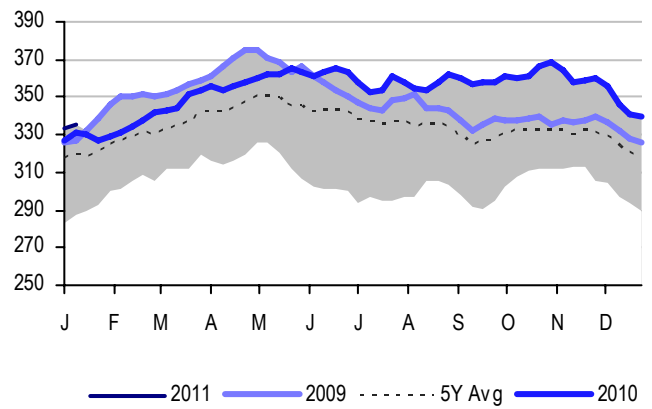


Chart 36: Distillate inventory—days of demand cover

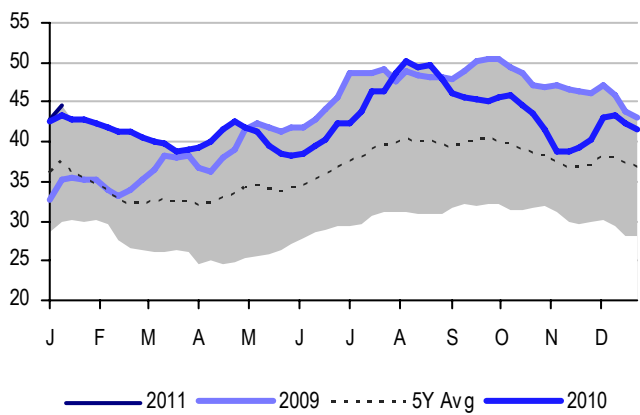


Chart 37: Distillate inventory (million barrels)

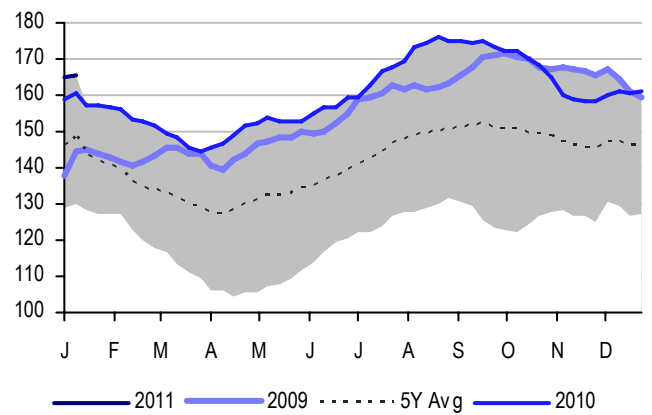


Chart 38: Gasoline inventory—days of demand cover

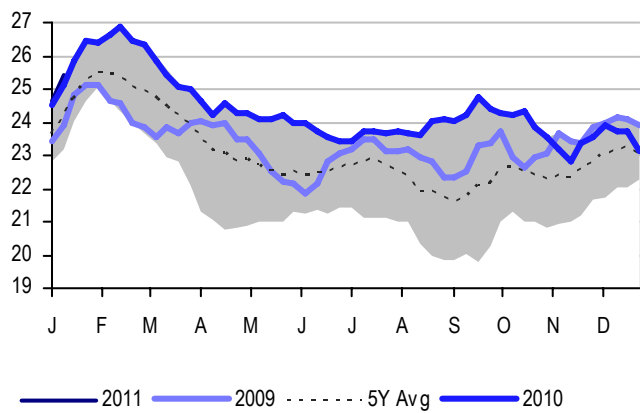
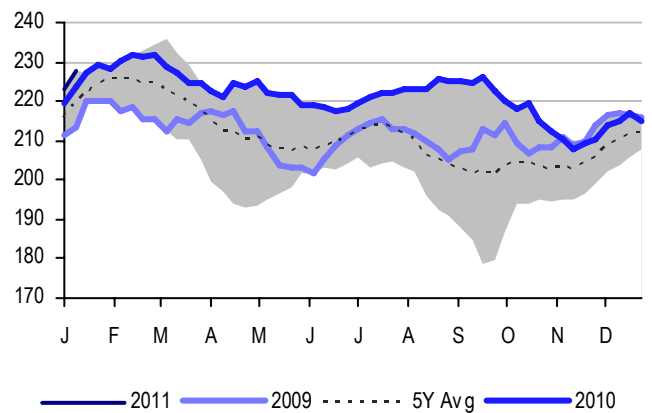


Chart 39: Gasoline inventory (million barrels)



Source for all charts on this page: EIA

Japan oil product inventory

Chart 40: Crude oil inventory (million barrels)

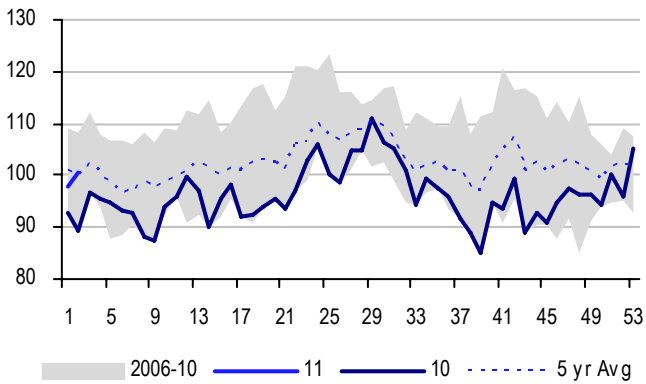


Chart 41: Gasoline inventory (million barrels)

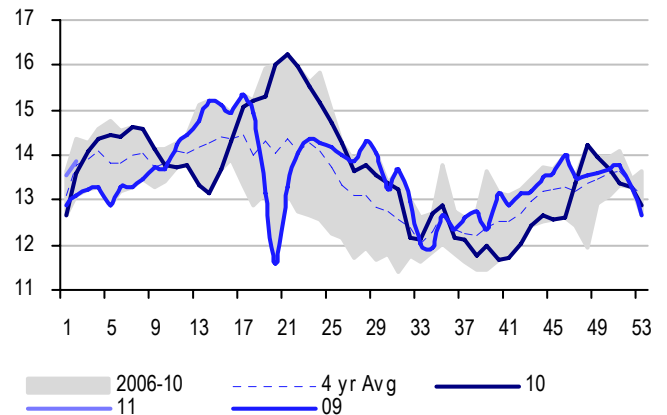


Chart 42: Jet-kero inventory (million barrels)

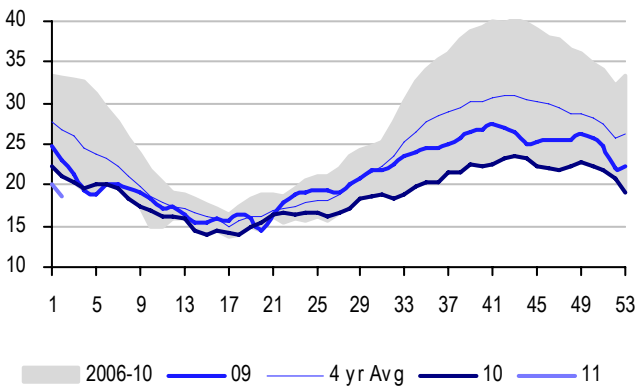


Chart 43: Diesel oil inventory (million barrels)

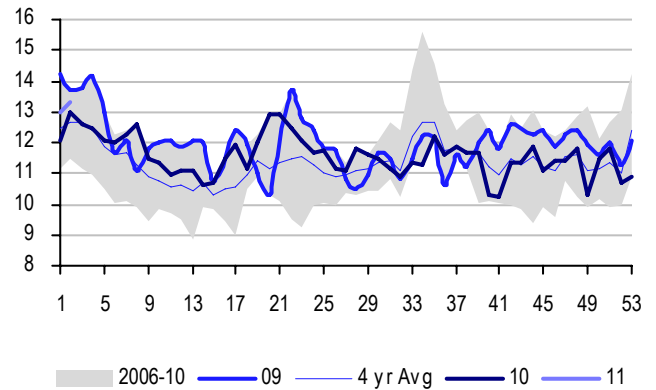


Chart 44: Heating oil inventories (million barrels)

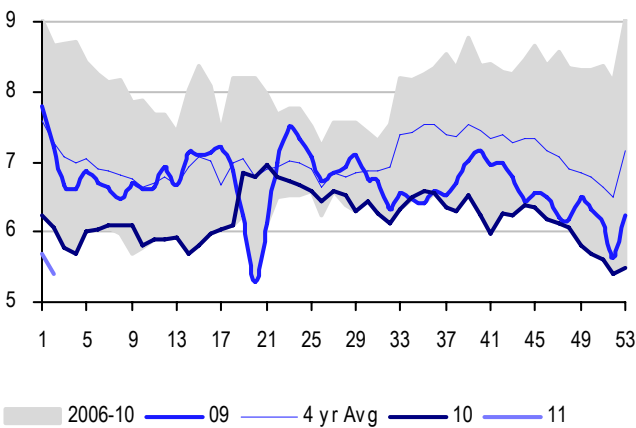
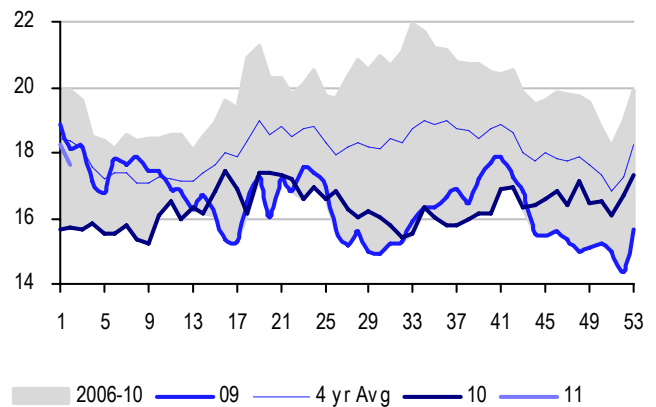


Chart 45: Fuel oil inventories (million barrels)



Source for all charts on this page: Petroleum Association of Japan

Singapore oil product inventory

Chart 46: Light end stocks (million barrels)

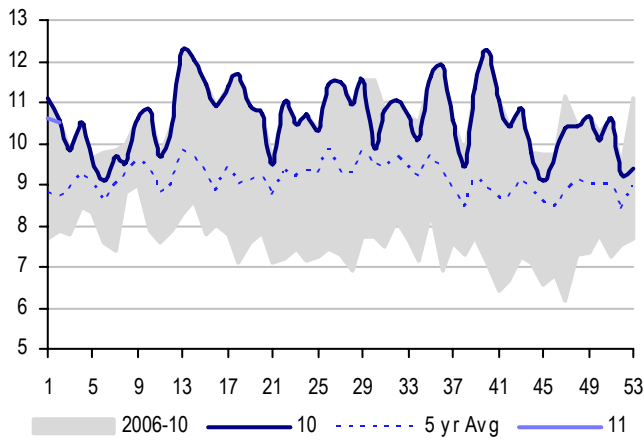


Chart 47: Distillate stocks (million barrels)

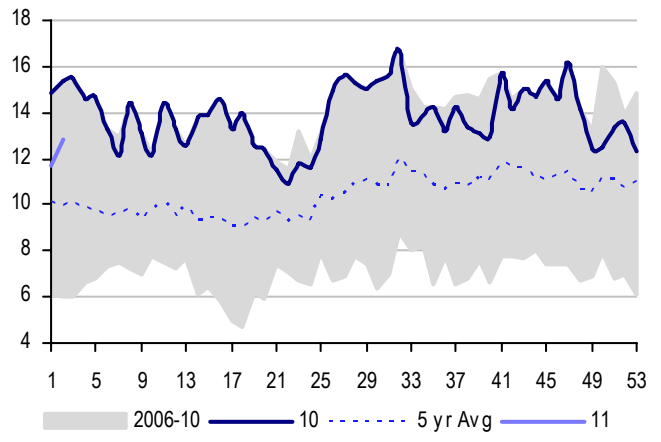


Chart 48: Fuel oil stocks (million barrels)

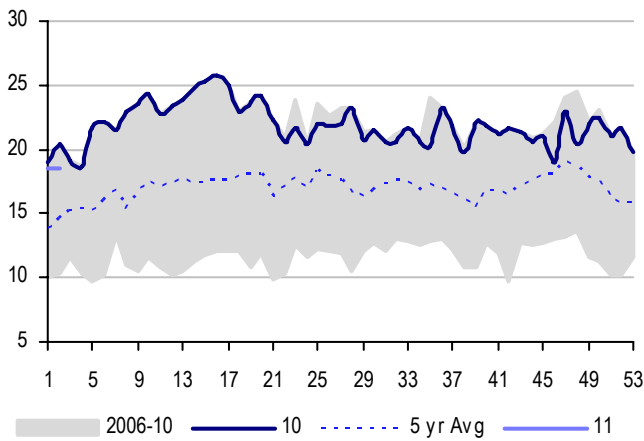
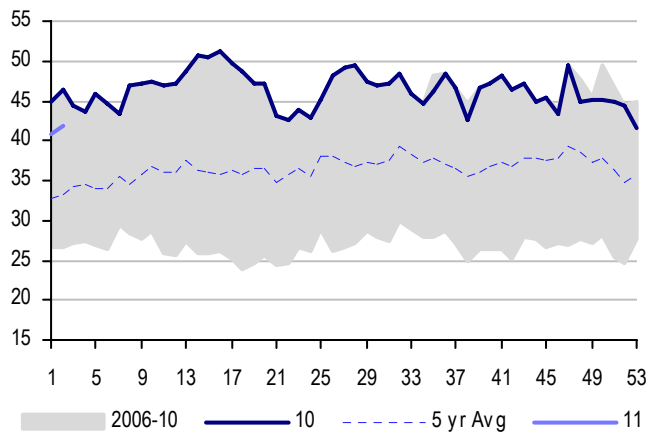


Chart 49: Total Singapore inventory



Source for all charts on this page: Reuters

Petrochemical prices and spreads

Chart 50: FE ethylene and propylene price (US\$/mt)

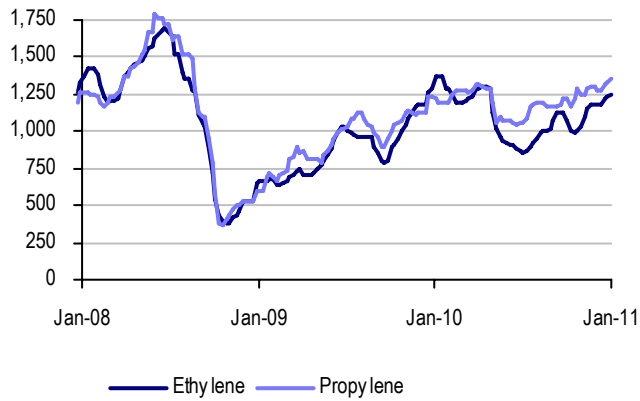


Chart 51: FE ethylene and propylene to naphtha spread(US\$/mt)

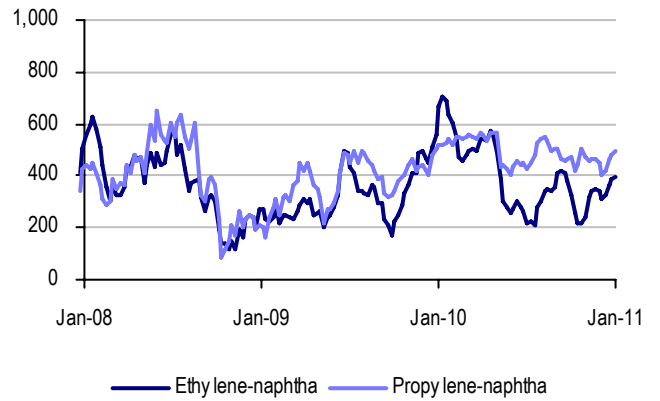


Chart 52: FE butadiene price (US\$/mt)

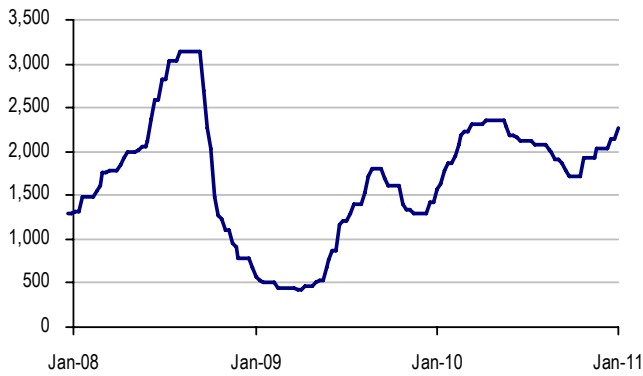


Chart 53: FE butadiene – naphtha spread (US\$/mt)

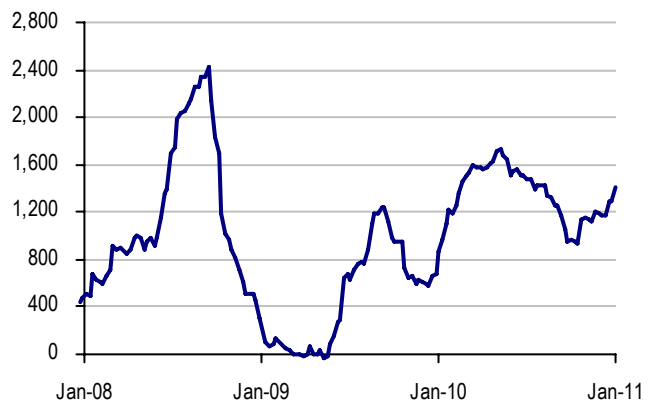
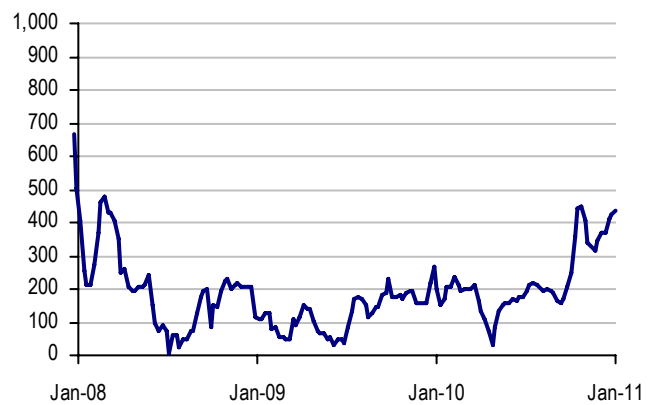


Chart 54: MEG price (US\$/mt)



Chart 55: MEG – ethylene spread (US\$/mt)



Source for all charts on this page: Thomson DataStream

Chart 56: HDPE, LDPE, LLDPE, PP price (US\$/mt)

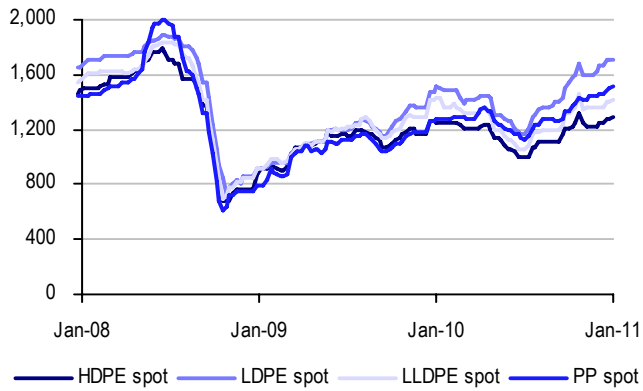


Chart 57: HDPE,LDPE,LLDPE, PP to naphtha spread (US\$/mt)

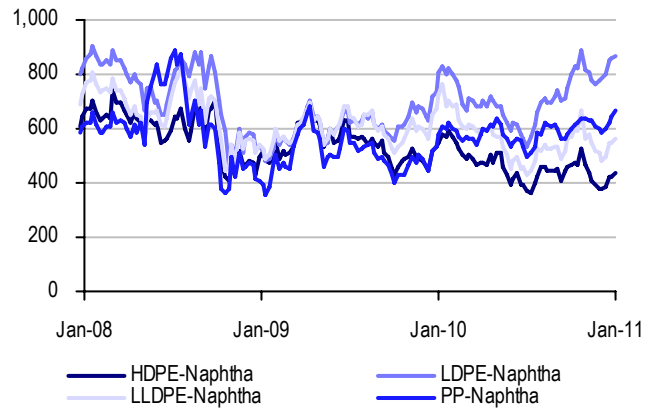


Chart 58: Benzene and Paraxylene price (US\$/mt)

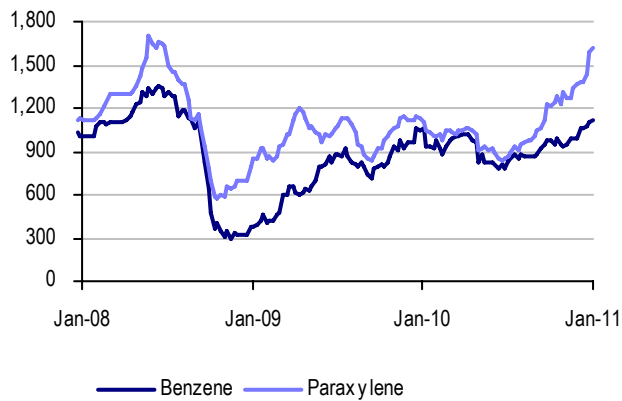


Chart 59: Benzene and Paraxylene to naphtha spread (US\$/mt)

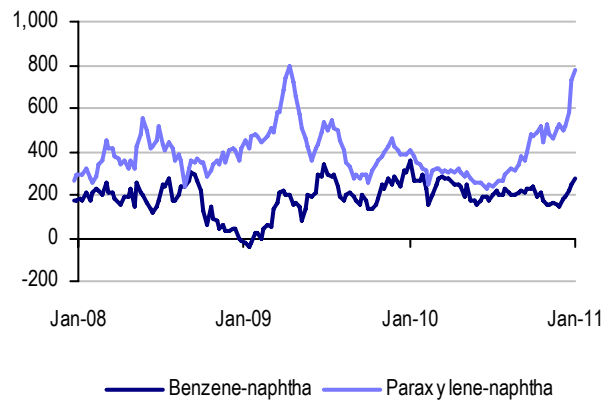


Chart 60: ABS, PS, SM, benzene price (US\$/mt)

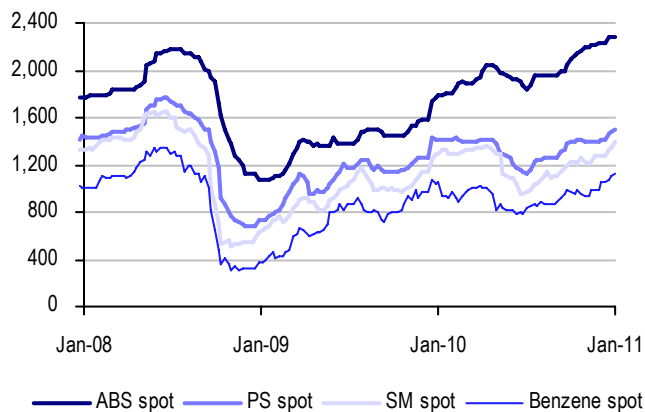
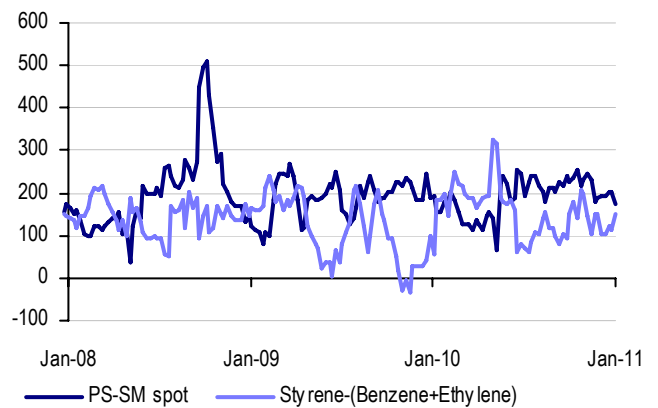


Chart 61: PS-SM and styrene -(benzene + ethylene)(US\$/mt)



Source for all charts on this page: Thomson DataStream

Chart 62: PTA and PX prices (US\$/mt)

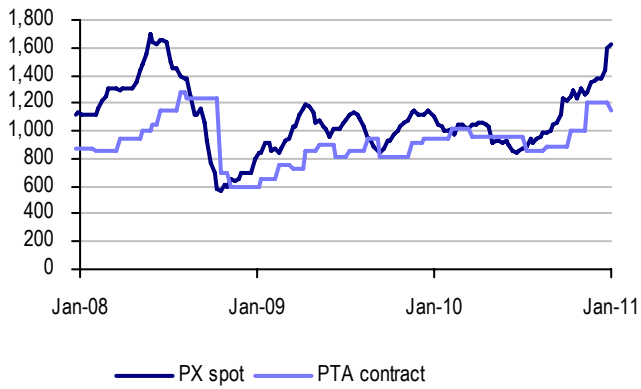


Chart 63: PTA and PX spread (US\$/mt)

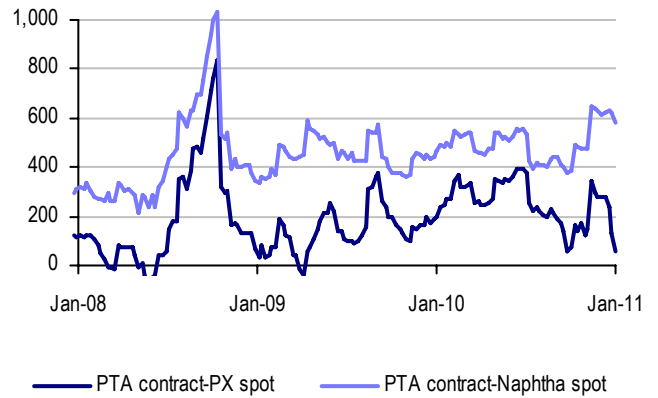


Chart 64: PVC, VCM, EDC and ethylene spot price (US\$/mt)

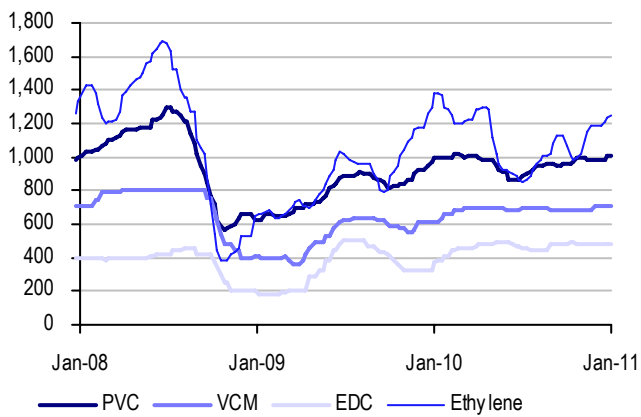


Chart 65: EDC—ethylene spread (US\$/mt)

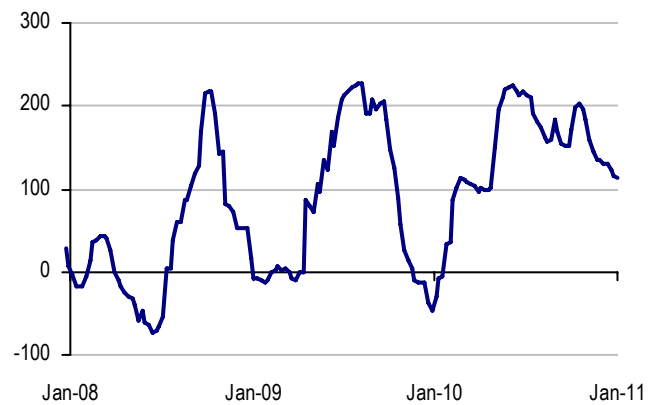
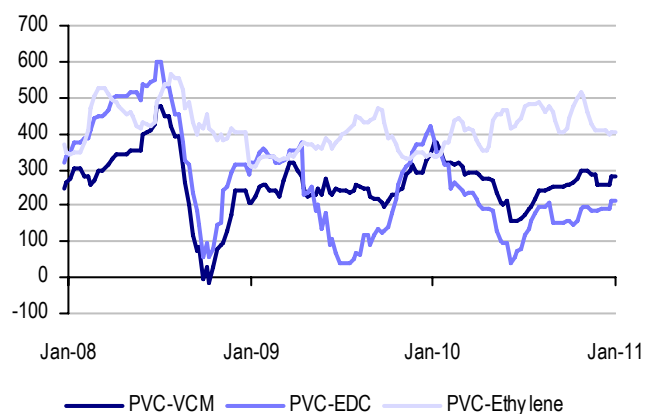


Chart 66: VCM – EDC margin (US\$/mt)



Chart 67: PVC-VCM, PVC-EDC, PVC-ethylene spread (US\$/mt)



Source for all charts on this page: Thomson DataStream

Recent oil and chemical reports

Table 12: Recent publications

Date	Company / Sector	Title	Analyst	Pages
21 Jan 11	Petronas Chemicals	A leading low-cost petrochemical producer	John Chung	52
21 Jan 11	Thailand Market Strategy	My Thai XIII – picking the top oil and chemical stock	Piyanan Panichkul	30
20 Jan 11	SK Innovation	Q410 earnings dragged by non-op items	John Chung	10
19 Jan 11	Reliance Industries	Show me the gas	Prakash Joshi	6
18 Jan 11	Asia Oil and Chemicals	Alpha preferences	Peter Gastreich	11
18 Jan 11	GAIL	3Q11 disappoints on lower Petchem. vols	Prakash Joshi	10
17 Jan 11	Essar Oil	Q3FY11 results surprise on the upside	Prakash Joshi	9
17 Jan 11	Asia Refining and Petrochemicals	Fundamentals remain solid in Asia	John Chung	15
13 Jan 11	India Oil and Gas sector	Too many players in the pipeline?	Prakash Joshi	11
11 Jan 11	Aban Offshore	Running a tight ship	Ruchi Patwari	40
11 Jan 11	SinoTech Energy	Unexpected new MDF contract	Peter Gastreich	9
07 Jan 11	Taiwan Petrochemical	2010 preliminary results beat expectation	John Chung	7
06 Jan 11	SinoTech Energy	Daqing benefitting from EOR	Peter Gastreich	9
06 Jan 11	Oil & Natural Gas Corporation	Diesel price hike delay poses risk to our PT	Prakash Joshi	9
06 Jan 11	S-Oil	Q410E another strong quarter; raise PT	John Chung	11
04 Jan 11	Thailand Oil and Chemical	LPG reform close to reality	Piyanan Panichkul	14
04 Jan 11	PTT Public Company Ltd.	Strong earnings growth, cheap valuations	Piyanan Panichkul	13
04 Jan 11	PTT Exploration & Production	Risk reward profile not compelling	Piyanan Panichkul	16
31 Dec 10	China Oil and Gas sector	CNOOC move into domestic CBM	Peter Gastreich	9
31 Dec 10	India Oil and Gas sector	India oil monthly: Issue 4	Prakash Joshi	13
30 Dec 10	China Oil and Gas sector	Apparent oil demand up 13% YoY	Peter Gastreich	11
20 Dec 10	Hindustan Petroleum	Lower PT on possible refinery delay	Prakash Joshi	9
16 Dec 10	China Oil and Gas sector	PetroChina drilling into CBM	Peter Gastreich	60
16 Dec 10	Asia Petrochemicals	Cotton prices bounce back	John Chung	13
15 Dec 10	Asia Oil and Chemicals	Alpha preferences	Peter Gastreich	10
14 Dec 10	SinoTech Energy	Riding China's EOR wave	Peter Gastreich	44
13 Dec 10	China Oil and Gas sector	Potential CNOOC move into China CBM	Peter Gastreich	10
13 Dec 10	Cairn India Limited	Raise PT on higher oil price forecasts	Prakash Joshi	10
13 Dec 10	Oil & Natural Gas Corporation	Upgrade on higher oil prices, lower royalty	Prakash Joshi	10
10 Dec 10	PetroChina	Nudging up our valuation	Peter Gastreich	11
10 Dec 10	PetroChina – A	Nudging up our price target	Peter Gastreich	10
10 Dec 10	CNOOC Ltd.	Moderate boost to oil price outlook	Peter Gastreich	13
08 Dec 10	India Oil and Gas Sector	Expect hike in diesel as oil hits 25-mth high	Prakash Joshi	8
03 Dec 10	Thailand Oil and Chemical	Possible reform of Thailand's LPG subsidy	Piyanan Panichkul	15

Source: UBS

Valuations: Oil and Chemicals

Table 13: Asia oil and chemical universe-share performance:

Company 21 Jan 11	Ticker	Rating	Price Cur	Price	TP	Mkt Cap USDbn	Absolute Performance (%)					Relative Performance (%)				
							-1W	-1M	-3M	-6M	-12M	-1W	-1M	-3M	-6M	-12M
Exploration & Production																
Cairn India Limited	CAIL.BO	Neutral	INR	337	375	14.0	0.4	1.0	-0.1	7.5	20.5	-0.4	6.6	6.5	1.7	8.1
CNOOC	0883.HK	Neutral	HKD	18.6	20.0	104	-2.1	2.1	15.9	45.2	57.4	-0.4	-1.7	14.8	24.6	37.6
INPEX Corporation	1605.T	Suspended	JPY	497500	NA	21.9	2.2	5.4	14.6	23.4	-29.6	4.3	4.9	3.2	12.4	-26.1
Medco Energi Internasional	MEDC.JK	Buy	IDR	2925	4800	0.9	-8.6	-6.4	-29.1	-2.5	17.0	-3.5	0.7	-24.7	-13.1	-8.7
Oil Search Limited	OSH.AX	Buy	AUD	6.8	9.1	8.8	-1.5	-3.8	8.5	17.1	21.1	-0.5	-3.8	4.8	6.7	20.8
Oil & Natural Gas Corporation	ONGC.BO	Buy	INR	1105	1600	51.8	-6.3	-15.1	-18.6	-12.9	-3.1	-7.0	-10.4	-13.2	-17.7	-13.0
PTT Exploration & Production	PTTE.BK	Neutral	THB	162	180	17.5	-1.5	-5.0	-5.3	12.2	15.4	1.0	-4.4	-7.0	-7.4	-17.6
Santos Limited	STO.AX	Buy	AUD	13.6	16.0	11.2	-1.5	-0.4	10.7	-1.3	0.7	-0.5	-0.3	6.9	-10.1	0.4
Woodside Petroleum Limited	WPL.AX	Buy	AUD	42.5	53.8	32.8	-2.1	-0.7	-3.8	3.5	-7.4	-1.1	-0.7	-7.0	-5.7	-7.6
Simple Average							-3.0	-3.8	-2.2	8.6	5.4					
Integrated																
PetroChina	0857.HK	Buy	HKD	10.6	12.0	249	-1.1	6.8	7.6	21.6	15.3	0.6	2.8	6.6	4.3	0.7
PTT Public Company Ltd.	PTT.BK	Buy	THB	339	394	31.3	2.1	5.0	11.1	38.4	46.8	4.7	5.6	9.2	14.2	4.8
Reliance Industries	RELI.BO	Neutral	INR	987	1150	71.0	-1.5	-7.9	-8.6	-6.8	-6.4	-2.2	-2.8	-2.6	-11.8	-16.0
Sinopec	0386.HK	Restricted	HKD	7.9	NA	88.2	0.5	9.7	7.2	28.4	23.4	2.2	5.6	6.2	10.1	7.8
SK Innovation	096770.KS	Buy	KRW	182500	220000	15.1	-3.2	-3.2	24.1	54.7	59.4	-1.4	-4.7	12.4	30.7	32.6
Simple Average							-0.6	2.1	8.3	27.2	27.7					
Refining & Marketing																
Bharat Petroleum Corporation	BPCL.BO	Sell	INR	591	680	4.7	-0.4	-13.6	-18.0	-8.4	3.2	-1.1	-8.8	-12.6	-13.3	-7.5
Caltex Australia Limited	CTX.AX	Neutral	AUD	14.1	13.6	3.8	-0.2	-1.3	16.4	37.1	50.7	0.8	-1.2	12.4	24.9	50.4
Cosmo Oil	5007.T	Buy	JPY	265	290	2.7	-6.4	-0.4	25.0	25.6	25.6	-4.4	-0.9	12.6	14.4	31.8
GS Holdings	078930.KS	Buy	KRW	74200	80000	6.1	6.6	5.0	34.2	75.8	97.9	8.6	3.3	21.5	48.6	64.6
Hindustan Petroleum	HPCL.BO	Neutral	INR	367	440	2.7	1.9	-11.3	-26.1	-16.8	4.6	1.1	-6.4	-21.3	-21.3	-6.1
Indian Oil Corp.	IOC.BO	Neutral	INR	328	430	17.4	5.8	-10.0	-21.0	-12.5	4.4	5.0	-5.0	-15.8	-17.2	-6.3
Essar Oil	ESRO.BO	Buy	INR	128	175	3.8	1.3	-4.2	-9.6	-4.9	-13.1	0.5	1.1	-3.6	-10.1	-22.1
PTT Aromatics and Refining	PTTAR.BK	Neutral	THB	37.3	39.5	3.6	1.4	2.1	28.4	68.6	46.1	3.9	2.7	26.2	39.1	4.3
Showa Shell Sekiyu	5002.T	Suspended	JPY	735	NA	3.3	-3.8	-2.5	8.2	13.4	-0.4	-1.7	-3.0	-2.5	3.3	4.5
S-Oil	010950.KS	Buy	KRW	93700	110000	9.4	3.2	4.6	35.8	71.9	73.5	5.1	2.9	23.0	45.3	44.4
Thai Oil	TOP.BK	Buy	THB	73.3	88.0	4.9	-2.0	-0.7	36.3	77.6	74.4	0.5	0.0	33.9	46.6	24.6
TonenGeneral Sekiyu	5012.T	Buy	JPY	926	1000	6.3	-2.5	1.0	29.0	19.5	19.9	-0.4	0.5	16.2	8.8	25.9
Simple Average							0.2	-2.5	11.3	28.7	31.4					
Petrochemicals																
Formosa Chemicals & Fibre	1326.TW	Buy	TWD	96.8	115	17.8	-0.3	1.3	17.9	33.3	37.7	-0.1	-0.2	7.1	14.7	25.0
Formosa Petrochemical Corporation	6505.TW	Neutral	TWD	94.4	86.0	29.1	0.9	2.6	18.4	21.3	12.2	1.1	1.2	7.6	4.4	1.9
Formosa Plastics	1301.TW	Buy	TWD	96.9	110	20.4	3.1	0.8	16.5	41.5	42.7	3.3	-0.6	5.8	21.7	29.5
Siam Cement	SCC.BK	Buy	THB	334	425	13.1	-0.6	1.5	2.8	33.1	50.5	1.9	2.2	1.0	9.8	7.5
LG Chemical	051910.KS	Buy	KRW	398500	490000	26.7	-5.6	5.0	15.3	18.8	77.1	-3.8	3.3	4.5	0.4	47.3
Nan Ya Plastics	1303.TW	Buy	TWD	77.4	84.0	19.7	6.2	8.3	14.8	34.1	20.4	6.4	6.7	4.3	15.4	9.3
PTT Chemical	PTTC.BK	Neutral	THB	147	165	7.1	-2.3	2.1	8.1	54.2	83.1	0.2	2.8	6.2	27.3	30.8
Simple Average							0.2	3.1	13.4	33.8	46.2					
GAIL (India) Ltd.	GAIL.BO	Buy	INR	453	580	12.6	-6.9	-10.7	-9.7	-1.3	10.5	-7.6	-5.7	-3.8	-6.7	-0.9
Simple Average							-6.9	-10.7	-9.7	-1.3	10.5					

Source: *IBES estimates for suspended stocks, Reuters, UBS estimates

Table 14: Asia oil and chemical universe—valuation:

Company 21 Jan 11	Ticker	Rating	PE (x)				EPSG (%)				EV/EBITDA (x)				Yields (%)				FCF Yield (%)			
			09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E
Exploration & Production																						
Cairn India Limited**	CAIL.BO	Neutral	45.3	11.0	6.6	7.1	28.6	454	67.2	-6.8	56.3	7.9	4.8	4.7	0.0	1.8	3.0	2.8	-6.5	10.7	18.8	18.6
CNOOC	0883.HK	Neutral	12.8	12.8	11.3	10.6	-33.6	87.6	10.0	6.5	6.7	6.6	6.1	5.8	4.6	2.8	3.0	3.2	2.0	3.2	3.1	3.3
INPEX Corporation**	1605.T	Suspended	16.1	15.1	16.2	14.9	-26.1	-27.7	-6.9	8.9	2.6	2.5	2.4	2.9	0.8	1.2	1.2	1.2	28.0	28.7	26.4	19.5
Medco Energi Internasional	MEDC.JK	Buy	105	25.4	19.0	15.2	-91.9	87.1	34.0	25.2	9.9	8.1	7.6	6.0	0.8	3.5	0.8	2.0	22.3	0.5	0.2	-9.2
Oil Search Limited	OSH.AX	Buy	50.3	69.7	56.2	69.6	-51.3	-19.2	29.4	-19.3	12.3	28.5	25.1	33.9	0.9	0.6	0.6	0.6	-1.6	-9.0	-10.0	-8.1
Oil & Natural Gas Corporation**	ONGC.BO	Buy	12.2	11.0	9.2	8.3	-2.0	10.4	19.5	11.3	5.2	4.8	4.1	3.7	3.0	4.5	5.4	6.0	11.8	5.3	7.6	14.3
PTT Exploration & P	PTTE.BK	Neutral	18.0	13.6	12.4	10.6	-46.8	87.5	2.5	17.1	5.1	5.1	4.1	3.5	4.8	2.3	4.0	4.4	3.6	-0.4	1.5	7.4
Santos Limited	STO.AX	Buy	43.3	29.9	31.1	39.4	-79.3	65.7	-53.6	-21.0	9.7	7.9	7.6	10.0	2.9	2.7	2.2	2.2	-5.9	-4.8	-4.4	-6.2
Woodside Petroleum Limited	WPL.AX	Buy	23.9	20.8	24.2	13.8	-1.5	-14.7	-19.0	75.3	11.2	11.6	11.7	7.0	2.6	2.4	2.3	4.1	-4.6	-0.2	0.8	14.1
Simple Average			36.3	23.0	19.5	19.8	-33.8	81.2	22.1	9.7	13.4	9.2	8.0	8.4	2.0	2.2	2.3	2.7	-2.4	2.7	8.8	10.7
Integrated																						
PetroChina	0857.HK	Buy	12.7	12.6	10.3	9.2	-9.7	29.7	19.0	11.6	7.6	7.1	6.3	6.0	3.5	3.6	4.4	4.9	-2.7	-3.4	-4.9	-2.4
PTT Public Company Ltd.	PTT.BK	Buy	11.2	15.3	11.1	9.3	14.8	23.4	17.4	20.1	5.7	6.9	5.8	5.0	3.8	2.7	3.1	4.0	-5.7	-2.0	10.0	12.8
Reliance Industries**	RELI.BO	Neutral	12.4	14.7	14.1	12.0	51.1	-18.6	4.3	17.2	12.1	8.9	8.0	6.6	0.7	0.7	0.8	1.0	-3.4	7.3	8.4	9.7
Sinopec	0386.HK	Restricted	7.4	NA	NA	NA	120	NA	NA	NA	4.4	NA	NA	NA	2.5	NA	NA	NA	1.2	NA	NA	NA
SK Energy	096770.KS	Buy	13.7	13.7	10.4	9.4	-23.6	81.8	30.9	11.3	6.0	7.0	5.8	5.4	2.1	1.2	2.4	2.7	4.1	0.2	6.4	9.1
Simple Average			11.5	14.1	11.5	10.0	30.5	29.1	17.9	15.0	7.2	7.5	6.5	5.7	2.5	2.0	2.7	3.1	-1.3	0.5	4.9	7.3
Refining & Marketing																						
Bharat petroleum Corporation**	BPCL.BO	Sell	11.3	16.8	10.7	10.2	158	-21.8	57.0	4.6	14.0	14.9	9.2	8.8	3.0	2.4	3.7	3.9	-35.4	63.3	4.8	3.3
Caltex Australia Limited	CTX.AX	Neutral	8.7	12.3	12.6	11.7	931	-6.4	13.0	-2.3	5.1	6.2	6.3	5.9	2.4	4.0	4.0	4.3	10.2	9.7	8.9	9.9
Cosmo Oil**	5007.T	Buy	NA	9.4	11.9	11.8	NA	NA	-5.3	0.0	8.2	5.2	5.5	5.8	3.1	3.0	3.0	3.0	-8.3	35.3	46.3	34.4
GS Holdings	078930.KS	Buy	5.7	8.7	10.6	10.1	3093	60.4	-17.9	4.5	-2.5	2.7	2.5	1.7	1.6	1.3	2.7	2.8	0.5	0.4	0.9	0.9
Hindustan Petroleum**	HPCL.BO	Neutral	7.8	12.7	8.3	6.7	94.8	-33.8	52.7	25.1	12.6	13.1	9.8	8.9	3.5	3.1	4.8	6.0	-35.9	7.9	-2.0	-4.0
Indian Oil Corp.**	IOC.BO	Neutral	6.5	9.6	8.9	9.0	305	-23.4	9.1	-2.1	9.3	8.2	7.0	7.0	4.5	4.1	4.5	4.4	-11.1	16.5	3.1	3.2
Essar Oil**	ESRO.BO	Buy	396.9	40.1	21.4	9.3	NA	1,092.1	87.1	130.1	23.4	11.6	8.1	5.0	0.0	0.0	0.0	0.0	(6.6)	17.4	19.7	29.0
PTT Aromatics and Refining	PTTAR.BK	Neutral	6.8	32.7	20.5	17.3	NA	-63.1	59.2	18.8	6.5	15.0	12.4	11.4	2.8	3.7	1.4	2.2	0.7	6.6	6.1	6.5
Showa Shell Sekiyu	5002.T	Suspended	NA	19.7	11.5	10.3	NA	NA	77.8	12.5	-27.8	11.4	8.0	7.3	4.0	2.4	2.4	2.4	-9.8	-9.7	17.0	20.1
S-Oil	010950.KS	Buy	29.5	17.4	13.6	11.7	-48.5	173	27.8	16.2	15.3	12.6	9.6	8.4	8.6	1.4	4.0	5.9	-8.4	1.0	5.9	11.8
Thai Oil	TOP.BK	Buy	7.0	21.1	12.3	11.1	NA	-28.5	41.1	10.7	5.7	10.9	7.4	6.4	7.1	2.2	3.0	3.3	8.5	8.8	15.0	14.5
TonenGeneral Sekiyu	5012.T	Buy	NA	NA	NA	NA	NA	NA	NA	NA	-142.4	NA	NA	NA	4.3	NA	NA	NA	-5.9	NA	NA	NA
Simple Average			53.4	18.2	12.9	10.8	755	128	36.5	19.8	-6.1	10.2	7.8	7.0	3.7	2.5	3.1	3.5	-8.5	14.3	11.4	11.8
Petrochemicals																						
Formosa Chemicals & Fibre	1326.TW	Buy	10.2	13.0	11.7	11.0	382	43.1	11.4	6.9	5.2	10.5	9.0	8.3	8.5	6.5	7.3	7.8	4.0	3.6	5.5	6.1
Formosa Petrochemical	6505.TW	Neutral	16.4	25.4	23.1	19.8	188	-19.4	10.1	16.6	10.2	19.4	18.0	15.7	5.0	3.1	3.5	4.0	3.5	9.3	5.7	5.6
Formosa Plastics	1301.TW	Buy	12.6	14.1	12.3	11.3	39.6	53.1	14.2	8.9	6.1	9.2	8.1	7.5	7.1	5.7	6.5	7.1	1.9	3.6	5.1	5.5
Siam Cement	SCC.BK	Buy	7.9	15.4	14.0	11.6	45.2	9.7	7.3	20.7	7.1	11.1	8.0	6.5	4.3	3.0	3.4	4.2	4.4	6.0	10.8	13.6
LG Chemical	051910.KS	Buy	6.3	11.9	10.3	9.3	97.3	39.8	15.2	11.0	4.4	8.2	6.9	5.9	4.0	2.1	2.4	2.7	7.2	6.4	9.3	10.9
Nan Ya Plastics	1303.TW	Buy	21.6	15.6	13.1	13.4	75.4	137	19.1	-2.1	11.9	13.6	11.5	10.3	4.2	5.1	6.1	6.0	3.0	4.0	4.5	5.3
PTT Chemical	PTTC.BK	Neutral	12.9	20.8	12.2	10.7	-42.1	54.2	70.1	14.2	6.3	10.8	7.9	7.2	3.6	1.2	1.9	3.3	-6.5	2.4	6.0	7.9
Simple Average			12.6	16.6	13.8	12.4	112	45.4	21.1	10.9	7.3	11.8	9.9	8.8	5.3	3.8	4.4	5.0	2.5	5.1	6.7	7.9
GAIL (India) Ltd.**	GAIL.BO	Buy	10.8	13.5	15.8	13.2	-32.3	17.7	9.1	20.3	NA	8.1	10.6	8.6	2.9	2.1	3.2	3.8	-0.7	0.7	7.5	9.3
Simple Average			10.8	13.5	15.8	13.2	-32.3	17.7	9.1	20.3	NA	8.1	10.6	8.6	2.9	2.1	3.2	3.8	-0.7	0.7	7.5	9.3

Note: ** The financial year for these companies is from 1 April to 31 March every year. Hence 2009E, 2010E, 2011E, and 2012E start from 1 April and include the first quarter of the following year also.

Source: *IBES estimates for suspended stocks, Reuters, UBS estimates

Table 15: Asia oil and chemical universe—valuation (Cont.):

Company 21 Jan 11	Ticker	Rating	P/BV (x)				ROE (%)				EV/IC				ROIC (%)				Net Debt/Equity (%)			
			09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E
Exploration & Production																						
Cairn India Limited**	CAIL.BO	Neutral	1.4	1.7	1.4	1.2	3.2	16.3	23.3	18.6	1.4	1.7	1.5	1.3	2.0	15.8	23.3	21.1	7.4	15.4	-0.6	-15.1
CNOOC	0883.HK	Neutral	2.2	3.6	3.0	2.5	17.6	30.5	29.1	25.8	2.8	4.2	3.5	3.0	28.4	44.2	41.1	36.8	-14.3	-5.9	-7.0	-7.8
INPEX Corporation**	1605.T	Suspended	1.2	0.9	0.9	0.8	8.1	6.2	5.5	5.7	1.3	1.1	0.8	0.8	12.6	9.5	7.8	6.4	-6.2	-17.8	-1.6	21.5
Medco Energi Internasional	MEDC.JK	Buy	1.2	1.1	1.1	1.0	2.8	4.8	5.8	7.0	1.0	1.1	1.0	11.4	1.8	3.3	4.3	5.1	138	131	128	136
Oil Search Limited	OSH.AX	Buy	2.5	3.4	3.1	3.1	5.5	4.6	5.7	4.4	2.9	4.4	3.1	2.5	7.2	6.5	5.4	3.1	-49.7	-15.8	26.1	60.9
Oil & Natural Gas Corporation**	ONGC.BO	Buy	2.4	2.1	1.9	1.7	20.0	19.9	21.0	20.6	2.7	2.4	2.1	1.8	19.5	20.9	21.5	20.8	-8.7	-9.6	-3.4	-6.4
PTT Exploration & P	PTTE.BK	Neutral	2.9	3.1	2.8	2.4	16.0	26.5	23.4	24.2	2.5	2.5	1.9	1.6	23.8	31.1	30.9	31.3	0.2	12.0	23.6	21.5
Santos Limited	STO.AX	Buy	1.7	1.5	1.5	1.5	8.0	10.6	4.8	3.8	2.0	1.6	1.5	1.4	4.6	5.9	5.5	3.8	-6.1	-24.4	-2.3	22.6
Woodside Petroleum Limited	WPL.AX	Buy	3.2	2.5	2.4	2.2	22.0	14.5	10.2	16.8	2.8	2.3	2.0	2.0	10.8	9.9	8.0	13.4	44.7	29.9	38.7	21.3
Simple Average			2.1	2.0	1.8	1.7	10.2	13.6	13.4	13.2	2.0	2.2	1.8	2.7	11.4	15.4	15.6	15.0	26.3	30.2	39.4	44.4
Integrated																						
PetroChina	0857.HK	Buy	2.0	1.8	1.6	1.5	12.6	15.2	16.5	16.8	1.4	1.6	1.4	1.3	7.5	11.3	12.0	12.0	16.2	23.9	34.3	39.2
PTT Public Company Ltd.	PTT.BK	Buy	1.4	2.0	1.8	1.6	14.7	16.2	17.1	18.3	2.1	2.5	2.2	2.0	14.7	15.5	16.6	18.1	49.4	61.7	55.0	48.1
Reliance Industries**	RELI.BO	Neutral	2.1	2.1	1.9	1.7	18.7	14.5	13.4	13.9	2.2	1.9	1.8	1.7	9.8	12.1	12.4	14.0	36.1	24.5	13.9	4.5
Sinopec	0386.HK	Restricted	1.6	NA	NA	NA	17.5	NA	NA	NA	1.3	NA	NA	NA	13.1	NA	NA	NA	44.3	NA	NA	NA
SK Energy	096770.KS	Buy	1.2	1.9	1.7	1.5	9.0	15.0	17.2	16.9	1.0	1.6	1.5	1.4	6.8	13.0	14.6	14.9	70.5	68.8	56.7	42.1
Simple Average			1.7	2.0	1.7	1.6	14.5	15.2	16.1	16.5	1.6	1.9	1.7	1.6	10.4	13.0	13.9	14.7	43.3	44.7	40.0	33.5
Refining & Marketing																						
Bharat petroleum Corporation**	BPCL.BO	Sell	1.4	1.3	1.2	1.1	11.9	8.8	12.9	12.5	1.5	1.6	1.8	1.7	3.6	3.6	8.6	8.7	172	110	99.3	93.0
Caltex Australia Limited	CTX.AX	Neutral	1.0	1.2	1.2	1.1	11.4	9.8	10.5	9.8	1.0	1.2	1.2	1.1	10.0	9.7	8.9	9.1	16.6	17.4	15.5	13.3
Cosmo Oil**	5007.T	Buy	0.7	0.7	0.7	0.6	-3.3	5.9	5.4	5.3	0.8	0.9	0.9	0.8	-1.1	4.2	3.2	3.4	183	179	170	157
GS Holdings	078930.KS	Buy	0.7	1.4	1.3	1.2	13.0	18.0	13.0	12.4	NA	NA	NA	NA	NA	NA	NA	NA	15.4	10.2	7.7	6.1
Hindustan Petroleum**	HPCL.BO	Neutral	0.9	0.9	0.8	0.8	12.7	7.8	11.2	13.1	1.3	1.2	1.1	1.1	3.5	3.0	4.8	5.3	192	178	171	166
Indian Oil Corp.**	IOC.BO	Neutral	NA	NA	NA	0.0	21.9	14.9	14.9	13.4	1.5	1.4	1.4	1.3	8.6	8.9	10.2	9.4	94.3	71.1	66.0	61.9
Essar Oil**	ESRO.BO	Buy	3.0	3.2	2.7	2.1	0.7	8.1	13.7	25.7	2.0	1.9	1.9	1.8	2.6	8.0	12.5	21.3	173	134.7	99.6	43.8
PTT Aromatics and Refining	PTTAR.BK	Neutral	0.9	1.9	1.7	1.6	16.2	5.6	8.7	9.8	1.0	1.4	1.4	7.7	7.8	4.0	5.5	6.1	126	128	118	110
Showa Shell Sekiyu	5002.T	Suspended	1.4	1.2	1.1	1.1	-21.2	5.7	9.9	10.6	1.1	1.1	1.1	1.0	NA	2.1	3.5	4.0	107	133	124	112
S-Oil	010950.KS	Buy	2.7	2.4	2.2	2.1	6.1	14.7	17.1	18.6	1.6	2.0	1.9	1.8	5.5	8.8	11.8	13.7	38.7	38.5	36.4	27.6
Thai Oil	TOP.BK	Buy	2.4	2.0	1.9	1.7	19.2	12.4	16.0	16.0	1.1	1.8	1.8	1.7	11.0	7.7	13.3	15.2	53.3	33.2	11.6	-4.2
TonenGeneral Sekiyu	5012.T	Buy	2.2	NA	NA	NA	-8.7	NA	NA	NA	1.8	NA	NA	NA	NA	NA	NA	NA	38.6	NA	NA	NA
Simple Average			1.6	1.6	1.5	1.2	6.7	10.2	12.1	13.4	1.3	1.4	1.4	2.0	5.7	6.0	8.2	9.6	101	93.9	83.6	71.5
Petrochemicals																						
Formosa Chemicals & Fibre	1326.TW	Buy	1.2	2.1	2.0	1.9	14.4	17.6	18.6	19.1	7.7	20.8	24.6	27.7	7.7	18.8	22.4	25.2	10.8	4.8	-0.5	-5.9
Formosa Petrochemical	6505.TW	Neutral	2.9	3.9	3.7	3.5	20.6	15.2	16.4	18.2	2.2	2.8	2.9	15.0	11.3	10.2	11.6	13.6	66.0	52.0	44.8	39.2
Formosa Plastics	1301.TW	Buy	1.5	2.4	2.3	2.2	13.6	18.0	19.2	19.8	10.8	32.8	38.4	44.9	8.7	24.3	28.4	32.8	-1.5	-5.8	-10.4	-14.8
Siam Cement	SCC.BK	Buy	1.9	3.4	3.0	2.6	25.4	23.9	22.6	24.1	17.3	15.7	22.3	27.0	13.9	12.0	18.1	20.3	156	92.3	68.3	43.4
LG Chemical	051910.KS	Buy	1.9	3.6	2.9	2.3	30.3	32.0	29.3	26.4	31.8	38.8	40.0	41.3	24.5	29.9	30.8	31.9	19.9	9.6	3.4	0.8
Nan Ya Plastics	1303.TW	Buy	1.3	2.1	2.0	1.9	6.9	14.8	16.4	15.4	7.5	24.7	28.6	31.7	7.5	19.7	22.6	25.7	23.0	15.2	11.8	10.9
PTT Chemical	PTTC.BK	Neutral	0.8	2.0	1.8	1.6	7.0	10.2	15.7	16.1	0.9	2.0	2.0	22.7	7.2	10.4	16.9	19.3	35.1	24.7	9.1	-4.2
Simple Average			1.6	2.8	2.5	2.3	16.9	18.8	19.8	19.9	11.2	19.7	22.7	30.0	11.5	17.9	21.5	24.1	44.2	27.6	18.1	9.9
GAIL (India) Ltd.**	GAIL.BO	Buy	2.0	2.5	3.0	2.7	19.5	20.0	19.5	21.5	NA	2.7	3.1	29.7	18.3	19.6	17.4	20.2	0.3	4.9	9.1	-1.1
Simple Average			2.0	2.5	3.0	2.7	19.5	20.0	19.5	21.5	NA	2.7	3.1	29.7	18.3	19.6	17.4	20.2	0.3	4.9	9.1	-1.1

Note: ** The financial year for these companies is from 1 April to 31 March every year. Hence 2009E, 2010E, 2011E, and 2012E start from 1 April and include the first quarter of the following year also.

Source: *IBES estimates for suspended stocks, Reuters, UBS estimates

Table 16: Global oil and chemical universe—share performance

Company 21 Jan 11	Ticker	Rating	Price Cur	Price	TP	Mkt Cap USDbn	Absolute Performance (%)					Relative Performance (%)				
							-1W	-1M	-3M	-6M	-12M	-1W	-1M	-3M	-6M	-12M
Majors																
BP	BP.L	Buy	GBX	497	550	150	-0.4	5.3	15.0	24.4	-18.5	1.3	6.0	11.7	9.3	-27.3
Chevron Corp.	CVX.N	Buy	USD	93.8	110	189	1.0	5.1	11.3	29.9	23.0	1.8	2.7	2.4	8.3	7.0
Eni	ENI.MI	Buy	EUR	17.6	21.5	86.8	-0.6	6.4	8.0	15.3	-0.7	-3.1	0.9	4.2	3.8	1.1
ExxonMobil Corp.	XOM.N	Neutral	USD	79.0	78.0	398	1.5	8.6	19.1	35.8	18.4	2.2	6.2	9.5	13.2	3.0
Royal Dutch Shell	RDSA.L	Buy	GBX	2143	2350	214	1.1	1.9	7.4	19.9	17.3	2.9	2.6	4.3	5.4	4.7
TOTAL	TOTF.PA	Buy	EUR	42.5	42.0	130	0.3	4.9	8.7	13.5	-3.0	-0.2	2.9	4.6	-1.7	-9.0
Simple Average							0.5	5.3	11.6	23.1	6.1					
Exploration & Production																
Anadarko Petroleum Corp.	APC.N	Buy	USD	77.2	85.0	38.3	-2.9	13.3	31.3	67.9	20.3	-2.1	10.8	20.8	39.9	4.7
Apache Corporation	APA.N	Buy	USD	126	135	45.8	0.0	6.3	22.0	43.6	19.6	0.7	3.9	12.2	19.7	4.0
Canadian Natural	CNQ.TO	Buy	CAD	42.4	48.0	46.5	2.1	-3.4	15.9	18.0	18.7	3.7	-2.6	10.1	2.5	2.7
Devon Energy Corporation	DVN.N	Buy	USD	83.5	87.0	36.1	0.9	12.2	25.8	33.3	16.9	1.6	9.7	15.7	11.1	1.7
EnCana Corporation	ECA.N	Neutral	USD	32.2	31.0	23.7	2.3	12.4	16.6	2.8	-0.7	3.1	9.9	7.2	-14.3	-13.6
EOG Resources	EOG.N	Neutral	USD	102	95.0	25.8	1.1	11.0	3.0	-0.7	5.3	1.9	8.5	-5.3	-17.2	-8.4
Nexen Inc.	NXY.TO	Buy	CAD	24.8	28.0	13.1	3.1	13.7	11.8	16.7	6.1	4.7	14.6	6.3	1.3	-8.2
Woodside Petroleum Limited	WPL.AX	Buy	AUD	42.5	53.8	32.8	-2.1	-0.7	-3.8	3.5	-7.4	-1.1	-0.7	-7.0	-5.7	-7.6
Simple Average							0.6	8.1	15.3	23.1	9.9					
Emerging Oils																
CNOOC	0883.HK	Neutral	HKD	18.6	20.0	104	-2.1	2.1	15.9	45.2	57.4	-0.4	-1.7	14.8	24.6	37.6
Gazprom	GAZPq.L	Buy (CBE)	USD	25.8	35.0	152	-1.2	0.7	18.2	23.6	4.9	-0.2	-2.0	12.7	2.9	-5.2
Gazprom Neft	SIBN.RTS	Neutral	USD	4.5	5.0	21.3	0.0	0.0	16.9	2.9	-19.6	-0.8	-6.8	-0.5	-22.6	-34.8
PetroChina	0857.HK	Buy	HKD	10.6	12.0	249	-1.1	6.8	7.6	21.6	15.3	0.6	2.8	6.6	4.3	0.7
PTT Exploration & Production	PTTE.BK	Neutral	THB	162	180	17.5	-1.5	-5.0	-5.3	12.2	15.4	1.0	-4.4	-7.0	-7.4	-17.6
PTT Public Company Ltd.	PTT.BK	Buy	THB	339	394	31.3	2.1	5.0	11.1	38.4	46.8	4.7	5.6	9.2	14.2	4.8
Sinopec	0386.HK	Restricted	HKD	7.9	NA	88.2	0.5	9.7	7.2	28.4	23.4	2.2	5.6	6.2	10.1	7.8
Simple Average							-0.6	3.0	10.5	21.3	15.3					
Petrochemicals																
Mitsubishi Chemical Holdings	4188.T	Buy	JPY	566	600	9.4	-3.2	5.0	37.4	29.2	39.1	-1.2	4.5	23.7	17.7	46.0
Mitsui Chemicals	4183.T	Neutral	JPY	298	300	3.6	2.1	4.6	19.2	20.2	8.8	4.2	4.0	7.4	9.4	14.2
Sumitomo Chemical	4005.T	Neutral	JPY	422	420	8.4	-0.2	8.8	18.5	24.1	-1.2	1.9	8.2	6.8	13.0	3.7
Simple Average							-0.5	6.1	25.0	24.5	15.6					

Source: *IBES estimates for suspended stocks, Reuters, UBS estimates

Table 17: Global oil and chemical universe—valuation

Company 21 Jan 11	Ticker	Rating	PE (x)				EPSG (%)				EV/EBITDA (x)				Yields (%)				FCF Yield (%)			
			09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E
Majors																						
BP	BP.L	Buy	10.5	6.7	6.6	6.5	-21.5	NA	NA	-10.5	5.0	3.6	3.4	3.3	7.0	0.9	3.5	3.7	7.6	-2.1	9.6	6.7
Chevron Corp.	CVX.N	Buy	14.6	9.9	9.1	9.1	-57.7	95.7	9.4	0.1	4.5	3.7	3.4	3.4	3.8	3.0	3.1	3.3	-0.2	6.7	5.5	5.5
Eni	ENI.MI	Buy	11.5	9.0	7.7	7.4	-47.4	66.6	7.2	4.0	2.6	2.5	2.3	2.1	6.0	5.7	5.8	6.0	-3.8	-0.4	5.8	10.5
ExxonMobil Corp.	XOM.N	Neutral	18.0	13.1	12.7	12.5	-52.9	52.0	3.2	2.1	7.1	5.9	5.4	5.3	2.3	2.2	2.3	2.4	1.5	5.0	4.4	4.5
Royal Dutch Shell	RDSa.L	Buy	13.9	10.3	8.6	7.9	-71.3	153	16.2	8.5	5.4	5.3	4.6	4.1	6.4	5.1	4.9	5.1	-1.4	4.6	9.5	13.2
TOTAL	TOTF.PA	Buy	11.1	9.2	8.9	8.7	-17.1	28.7	3.6	2.9	5.3	3.9	3.4	3.1	5.7	5.4	5.4	5.5	3.5	4.6	6.9	7.1
Simple Average			13.3	9.7	9.0	8.7	-44.7	79.2	7.9	1.2	5.0	4.2	3.7	3.6	5.2	3.7	4.2	4.3	1.2	3.1	6.9	7.9
Exploration & Production																						
Anadarko Petroleum	APC.N	Buy	NA	46.3	33.5	24.5	NA	NA	38.4	36.8	7.1	6.8	5.9	5.1	0.7	0.5	0.5	0.5	1.4	5.1	6.4	6.4
Apache Corporation	APA.N	Buy	14.5	14.0	11.5	11.0	-50.5	57.5	21.5	4.8	5.4	6.0	4.7	4.1	0.8	0.5	0.5	0.5	4.9	7.3	NA	NA
Canadian Natural	CNQ.TO	Buy	12.2	18.8	14.1	12.2	-68.7	73.2	19.8	15.8	3.9	5.1	4.5	4.3	0.7	0.7	0.7	0.7	6.7	3.3	3.5	8.1
Devon Energy	DVN.N	Buy	16.3	14.2	14.4	11.9	-61.9	59.9	-1.3	20.2	6.8	6.9	6.5	5.9	1.1	0.8	0.8	0.8	0.2	0.7	1.0	1.3
EnCana Corporation	ECA.N	Neutral	19.4	16.0	102	49.6	4.3	-57.6	-85.5	105	6.3	5.1	7.7	7.3	2.9	2.5	2.5	2.5	5.3	-0.1	-2.2	-1.0
EOG Resources	EOG.N	Neutral	24.5	93.1	33.6	25.8	-60.5	-63.6	177	29.9	6.0	9.3	7.0	6.1	0.8	0.6	0.6	0.6	-1.7	-12.1	-6.7	-5.9
Nexen Inc.	NXY.TO	Buy	16.1	15.0	9.2	8.3	-57.1	96.2	-2.6	10.8	5.2	5.2	4.3	3.9	0.9	0.8	0.8	0.8	5.0	9.8	20.6	24.4
Woodside Petroleum	WPL.AX	Buy	23.9	20.8	24.2	13.8	-1.5	-14.7	-19.0	75.3	11.2	11.6	11.7	7.0	2.6	2.4	2.3	4.1	-4.6	-0.2	0.8	14.1
Simple Average			18.2	29.8	30.3	19.6	-42.3	21.6	18.6	37.3	6.5	7.0	6.5	5.5	1.3	1.1	1.1	1.3	2.1	1.7	3.3	6.8
Emerging Oils																						
CNOOC	0883.HK	Neutral	12.8	12.8	11.3	10.6	-33.6	87.6	10.0	6.5	6.7	6.6	6.1	5.8	4.6	2.8	3.0	3.2	2.0	3.2	3.1	3.3
Gazprom	GAZPq.L	Buy (CBE)	4.3	5.5	4.5	4.0	4.7	0.7	22.4	13.4	4.1	4.6	4.0	3.4	1.5	1.8	2.2	2.5	2.4	2.2	5.3	12.1
Gazprom Neft	SIBN.RTS	Neutral (CBE)	5.6	6.3	5.6	5.4	-34.9	12.8	12.0	3.1	3.9	4.0	3.5	3.1	3.2	3.2	3.0	3.7	4.1	11.0	7.5	8.6
PetroChina	0857.HK	Buy	12.7	12.6	10.3	9.2	-9.7	29.7	19.0	11.6	7.6	7.1	6.3	6.0	3.5	3.6	4.4	4.9	-2.7	-3.4	-4.9	-2.4
PTT Exploration & P	PTTE.BK	Neutral	18.0	13.6	12.4	10.6	-46.8	87.5	2.5	17.1	5.1	5.1	4.1	3.5	4.8	2.3	4.0	4.4	3.6	-0.4	1.5	7.4
PTT Public Company Ltd.	PTT.BK	Buy	11.2	15.3	11.1	9.3	14.8	23.4	17.4	20.1	5.7	6.9	5.8	5.0	3.8	2.7	3.1	4.0	-5.7	-2.0	10.0	12.8
Sinopec	0386.HK	Restricted	7.4	NA	NA	NA	120	NA	NA	NA	4.4	NA	NA	NA	2.5	NA	NA	NA	1.2	NA	NA	NA
Simple Average			10.2	10.7	9.3	8.4	0.3	32.9	11.3	10.3	5.4	5.9	5.1	4.7	3.4	2.7	3.2	3.6	-0.2	-0.1	2.6	5.3
Petrochemicals																						
Mitsubishi Chemical **	4188.T	Buy	30.6	9.4	9.5	9.5	NA	492	1.2	2.6	7.7	5.3	5.0	4.7	2.0	1.8	1.8	1.8	12.2	24.3	29.0	30.1
Mitsui Chemicals**	4183.T	Neutral	NA	19.6	13.5	11.9	NA	NA	-34.7	16.8	10.1	6.1	5.8	5.5	1.0	2.0	2.0	2.0	9.0	1.8	13.5	9.1
Sumitomo Chemical**	4005.T	Neutral	66.7	29.5	15.3	11.3	NA	-31.9	334	37.0	7.4	5.9	5.6	4.9	1.5	2.1	2.4	2.8	-51.8	15.0	12.8	14.0
Simple Average			48.6	19.5	12.8	10.9	NA	230	100	18.8	8.4	5.7	5.5	5.0	1.5	2.0	2.0	2.2	-10.2	13.7	18.4	17.7

Note: ** The financial year for these companies is from 1 April to 31 March every year. Hence 2009E, 2010E, 2011E, and 2012E start from 1 April and include the first quarter of the following year also.

Source: *IBES estimates for suspended stocks, Reuters, UBS estimates

Table 18: Global oil and chemical universe—valuation (cont.)

Company 21 Jan 11	Ticker	Rating	P/BV (x)				ROE (%)				EV/IC				ROIC (%)				Net Debt/Equity (%)			
			09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E
Majors																						
BP	BP.L	Buy	1.5	1.7	1.3	1.2	17.7	-4.0	22.8	17.1	1.4	1.3	1.3	1.2	11.9	20.9	17.4	17.1	25.9	30.5	9.9	7.1
Chevron Corp.	CVX.N	Buy	2.0	1.8	1.6	1.5	10.8	19.3	18.8	17.0	1.4	1.7	1.6	1.5	1.7	2.6	2.0	1.8	1.8	-5.1	-3.1	-4.9
Eni	ENI.MI	Buy	1.3	1.4	1.2	1.1	10.2	16.4	16.2	15.2	0.8	0.9	0.8	0.8	8.0	10.8	11.4	11.2	45.3	48.0	39.6	32.1
ExxonMobil Corp.	XOM.N	Neutral	3.5	2.6	2.4	2.2	17.3	22.5	19.5	18.2	2.7	2.5	2.1	2.0	3.0	3.4	-0.1	-0.1	-1.0	6.2	10.2	9.6
Royal Dutch Shell	RDSa.L	Buy	0.9	0.8	0.7	0.7	9.3	13.8	15.8	15.7	1.4	1.7	1.6	1.5	7.4	12.9	14.9	15.6	18.3	23.9	16.5	9.8
TOTAL	TOTF.PA	Buy	1.7	1.7	1.6	1.4	16.6	20.5	19.3	18.1	1.8	1.7	1.5	1.4	9.6	12.5	13.2	13.2	27.2	24.5	17.3	9.7
Simple Average			1.8	1.7	1.5	1.4	13.6	14.7	18.7	16.9	1.6	1.6	1.5	1.4	6.9	10.5	9.8	9.8	19.6	21.3	15.1	10.6
Exploration & Production																						
Anadarko Petroleum	APC.N	Buy	1.2	1.8	1.7	1.6	-2.8	4.0	5.3	6.9	0.8	1.1	1.1	1.0	0.1	4.8	6.2	7.7	62.4	60.2	55.2	51.2
Apache Corporation	APA.N	Buy	1.7	2.0	1.7	1.5	11.8	16.6	16.8	15.2	1.2	1.7	1.4	1.3	13.3	18.9	20.9	20.4	63.5	68.6	NA	NA
Canadian Natural	CNQ.TO	Buy	0.9	2.1	1.9	1.6	8.2	13.1	13.9	14.2	0.6	0.9	0.9	1.0	13.8	15.1	16.3	18.3	49.8	37.6	29.5	15.6
Devon Energy	DVN.N	Buy	1.7	1.9	1.9	1.8	10.1	15.0	12.8	14.1	1.2	1.6	1.4	1.3	10.3	19.0	12.0	12.7	66.2	49.3	63.2	62.9
EnCana Corporation	ECA.N	Neutral	2.2	1.4	1.4	1.4	0.0	0.0	0.0	0.0	1.2	1.1	1.0	1.0	6.8	6.7	1.9	2.7	21.0	36.1	43.5	48.7
EOG Resources	EOG.N	Neutral	1.9	2.5	2.4	2.2	7.9	2.8	7.4	9.1	1.3	1.7	1.6	1.5	8.3	3.5	7.9	9.0	67.8	85.3	92.8	106
Nexen Inc.	NXY.TO	Buy	1.1	1.1	1.0	0.9	5.6	12.5	11.1	11.1	0.9	0.9	0.9	0.8	6.3	7.7	11.3	11.8	50.3	34.0	32.3	22.7
Woodside Petroleum	WPL.AX	Buy	3.2	2.5	2.4	2.2	22.0	14.5	10.2	16.8	2.8	2.3	2.0	2.0	10.8	9.9	8.0	13.4	44.7	29.9	38.7	21.3
Simple Average			1.7	1.9	1.8	1.7	7.8	9.8	9.7	10.9	1.3	1.4	1.3	1.2	8.7	10.7	10.6	12.0	53.2	50.1	50.8	46.9
Emerging Oils																						
CNOOC	0883.HK	Neutral	2.2	3.6	3.0	2.5	17.6	30.5	29.1	25.8	2.8	4.2	3.5	3.0	28.4	44.2	41.1	36.8	-14.3	-5.9	-7.0	-7.8
Gazprom	GAZPq.L	Buy (CBE)	0.9	0.8	0.7	0.6	16.5	14.7	15.6	15.3	0.9	1.0	0.9	0.8	13.8	13.4	14.5	14.8	23.4	22.7	19.5	13.1
Gazprom Neft	SIBN.RTS	Neutral (CBE)	1.3	1.1	0.9	0.8	20.0	19.3	18.2	16.1	1.4	1.4	1.2	1.0	18.6	19.5	18.6	17.2	29.2	20.8	13.5	5.4
PetroChina	0857.HK	Buy	2.0	1.8	1.6	1.5	12.6	15.2	16.5	16.8	1.4	1.6	1.4	1.3	7.5	11.3	12.0	12.0	16.2	23.9	34.3	39.2
PTT Exploration & P	PTTE.BK	Neutral	2.9	3.1	2.8	2.4	16.0	26.5	23.4	24.2	2.5	2.5	1.9	1.6	23.8	31.1	30.9	31.3	0.2	12.0	23.6	21.5
PTT Public Company Ltd.	PTT.BK	Buy	2.2	2.0	1.8	1.6	14.7	16.2	17.1	18.3	2.1	2.5	2.2	2.0	14.7	15.5	16.6	18.1	49.4	61.7	55.0	48.1
Sinopec	0386.HK	Restricted	1.6	NA	NA	NA	17.5	NA	NA	NA	1.3	NA	NA	NA	13.1	NA	NA	NA	44.3	NA	NA	NA
Simple Average			1.9	1.9	1.7	1.5	16.8	19.4	18.8	18.2	1.8	2.1	1.7	1.5	17.0	20.7	20.5	19.9	23.9	22.7	24.2	22.4
Petrochemicals																						
Mitsubishi Chemical**	4188.T	Buy	0.8	1.0	0.9	0.9	1.9	10.4	9.4	9.0	0.9	1.0	1.0	0.9	2.4	6.0	6.4	6.5	123	102	90.0	77.3
Mitsui Chemicals**	4183.T	Neutral	0.8	0.7	0.7	0.7	-7.7	6.8	4.2	4.8	0.8	0.9	0.9	0.8	NA	3.0	3.5	4.0	99.9	97.6	92.5	90.7
Sumitomo Chemical**	4005.T	Neutral	1.2	1.2	1.2	1.1	2.6	1.8	7.5	9.7	1.1	1.1	1.1	1.1	3.6	2.6	4.4	5.7	113	103	95.5	87.3
Simple Average			0.9	1.0	0.9	0.9	-1.1	6.3	7.0	7.8	0.9	1.0	1.0	1.0	3.0	3.9	4.8	5.4	112	101	92.7	85.1

Note: ** The financial year for these companies is from 1 April to 31 March every year. Hence 2009E, 2010E, 2011E, and 2012E start from 1 April and include the first quarter of the following year also.

Source: *IBES estimates for suspended stocks, Reuters, UBS estimates

■ **Statement of Risk**

We believe oil prices are the top risk in the sector. Our valuation of oil companies is based on UBS's global crude oil price forecasts. UBS forecasts WTI crude oil prices of US\$75/bbl in 2010, and US\$80/bbl in 2011. We have a normalised long-term Brent oil price assumption of US\$79/bbl. Any deviation from the above forecasts could change our investment conclusions. Petrochemical plants are generally high-risk operations (particularly during new plant start-ups), and accidents could significantly reduce plant operating rates, leading to lower-than-expected earnings. Exploration and production activities face risks such as volatility in oil and natural gas prices, and operational, financial, geological and meteorological issues.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%

UBS Short-Term Rating	Rating Category	Coverage[3]	IB Services[4]
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.

UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Asian Paints Ltd.	ASPN.BO	Buy	N/A	Rs2,660.95	21 Jan 2011
Bangkok Bank	BBL.BK	Buy	N/A	Bt158.50	21 Jan 2011
Cairn India Limited	CAIL.BO	Neutral	N/A	Rs340.40	24 Jan 2011
Cheung Kong Infrastructure ²²	1038.HK	Buy	N/A	HK\$36.80	21 Jan 2011
China Coal Energy ^{16a, 16b}	1898.HK	Buy	N/A	HK\$11.76	21 Jan 2011
China National Building Materials ^{16a}	3323.HK	Buy	N/A	HK\$18.80	21 Jan 2011
China Shenhua Energy ^{5, 16a, 16b}	1088.HK	Buy	N/A	HK\$31.90	21 Jan 2011
Essar Oil	ESRO.BO	Buy	N/A	Rs128.05	21 Jan 2011
EVA Air ²⁰	2618.TW	Neutral (CBE)	N/A	NT\$32.25	21 Jan 2011
Giordano	0709.HK	Neutral	N/A	HK\$4.86	21 Jan 2011
Godrej Consumer Products	GOCP.BO	Sell	N/A	Rs401.05	21 Jan 2011
Hankook Tire	000240.KS	Neutral	N/A	Won29,200	21 Jan 2011
Hyundai Steel	004020.KS	Buy	N/A	Won126,500	21 Jan 2011
ICICI Bank ^{5, 16b}	ICBK.BO	Buy	N/A	Rs1,083.90	24 Jan 2011
Idea Cellular	IDEA.BO	Buy	N/A	Rs69.30	24 Jan 2011
Industrial & Commercial Bank of China ^{2, 4, 5, 16a, 16b}	1398.HK	Buy	N/A	HK\$5.89	21 Jan 2011
Kia Motors ^{23a, 23b}	000270.KS	Buy	N/A	Won56,000	21 Jan 2011
Lanco Infratech ^{3b, 4}	LAIN.BO	Buy	N/A	Rs54.10	21 Jan 2011
LG Display ^{16b}	034220.KS	Buy	N/A	Won37,300	21 Jan 2011
Li & Fung ^{16a, 16b}	0494.HK	Sell	N/A	HK\$49.85	21 Jan 2011
Luzhou Laojiao	000568.SZ	Neutral	N/A	Rmb40.45	21 Jan 2011
Nan Ya Plastics	1303.TW	Buy	N/A	NT\$77.40	21 Jan 2011
OCBC	OCBC.SI	Buy	N/A	S\$9.95	21 Jan 2011
PetroChina ^{3c, 4, 5, 16a, 16b}	0857.HK	Buy	N/A	HK\$10.58	21 Jan 2011
SANY Heavy Industry	600031.SS	Suspended	N/A	Rmb19.32	21 Jan 2011
Sesa Goa	SESA.BO	Buy	N/A	Rs330.25	24 Jan 2011
Shriram Transport Finance	SRTR.BO	Buy	N/A	Rs722.35	21 Jan 2011
Siam Cement ^{4, 5}	SCC.BK	Buy	N/A	Bt334.00	21 Jan 2011
Sinoma International Engineering	600970.SS	Buy	N/A	Rmb40.68	21 Jan 2011
SinoTech Energy ^{2, 4, 5, 16b}	CTE.O	Buy	N/A	US\$8.20	21 Jan 2011
S-Oil	010950.KS	Buy	N/A	Won93,700	21 Jan 2011
Sun Hung Kai P. ^{16a, 16b, 18}	0016.HK	Buy	N/A	HK\$135.10	21 Jan 2011
Tata Motors Ltd. ^{16b}	TAMO.BO	Buy	N/A	Rs1,188.20	21 Jan 2011
Thai Union Frozen Products ^{3a}	TUF.BK	Buy	N/A	Bt48.00	21 Jan 2011
Tsingtao Brewery ^{16b}	0168.HK	Neutral	N/A	HK\$37.20	21 Jan 2011
Welspun Corp	WGSR.BO	Buy	N/A	Rs161.30	21 Jan 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Additional Prices: Aban Offshore, Rs713.80 (21 Jan 2011); Cairn India Limited, Rs337.05 (21 Jan 2011); Hindustan Petroleum, Rs366.95 (21 Jan 2011); Oil & Natural Gas Corporation, Rs1,105.05 (21 Jan 2011); PETRONAS Chemicals Group Berhad, RM6.20 (21 Jan 2011); PTT Exploration & Production, Bt161.50 (21 Jan 2011); PTT Public Company Ltd., Bt339.00 (21 Jan 2011); Source: UBS. All prices as of local market close.

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