

Switch out from Bajaj Auto

Downgrade Bajaj Auto to Sell

This is a non-consensus call, and based on worsening fundamentals of Bajaj Auto's domestic two wheeler business, both on demand and pricing. This is reflected in sharp downward revision of forecasts. Also, our revised rating factors positive news flow on restructuring involving spinoff of financial assets. We are also upgrading Hero Honda (XHROF; Rs705; C-3-7 to C-2-7) to Neutral, which is expanding market presence in the two wheeler space, at the expense of Bajaj Auto (BJJAF/BJAUF; Rs2609/US\$63.50; C-2-7 to C-3-7).

Upgrade Hero Honda to Neutral

We prefer Hero Honda in two wheelers, and upgrade from our Sell rating. This is based on relative valuations, on expectations of (1) sustained expansion in market share, and (2) superior earnings trajectory.

Market share differential is expanding

Bajaj Auto's competitive position in key motorcycle segments (100cc and 125cc) has diluted, as Hero Honda has hit back with recent product successes. This has resulted in a massive 360bps erosion of market share these past months, a position which is unlikely to reverse over the medium term.

Forecasts revised down for Bajaj Auto

We are slashing EPS estimates for Bajaj Auto by 9.7% in FY08, and 9.5% in FY09, pulled down by slowing volumes and declining margins. The impact should be acutely evident in H1 FY08 (estimate ~13% YoY decline). We are raising estimates sharply for Hero Honda.

Bajaj Auto overvalued on current fundamentals

Revised sum of parts value of Rs 2,448 (earlier Rs 2,568) is based on FY09E financials, and factors full value of insurance businesses on imminent spinoff to a separate financial arm.

Table 1: Valuation summary

	Inv. Rating	PER			PEG		ROE	EV/EBITDA	
		FY07E	FY08E	FY09E	FY07-09E	FY07E	FY07E	FY09E	
Bajaj Auto*	Sell	16.3	16.0	12.7	23.8	24.9		7.8	
Hero Honda	Neutral	16.3	14.8	12.6	1.2	38.8		7.4	

Source: Merrill Lynch Research Estimates * Bajaj Auto's multiple excludes value of insurance subsidiaries for relevant years



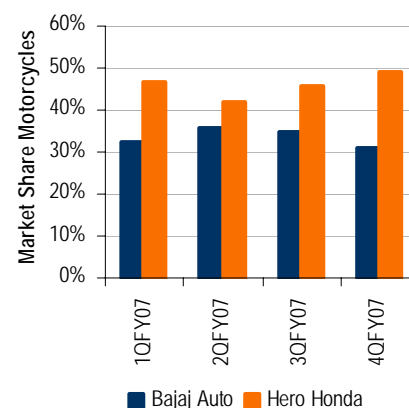
S. Arun >> +91 22 6632 8657

Research Analyst
DSP Merrill Lynch (India)
s_arun@ml.com

Vikas Sharda >> +91 22 6632 8686

Research Analyst
DSP Merrill Lynch (India)
vikas_sharda@ml.com

Chart 1: Bajaj Auto losing to Hero Honda



Source: Merrill Lynch Research, Society of Indian Automobile Manufacturers

Table 2: Revision of EPS - Bajaj Auto

(Rs)	FY08E	FY09E
Earlier	121.6	136.3
Revised	109.8	123.3
Chg	-9.7%	-9.5%

Source: Merrill Lynch Research Estimates

Table 3: Revision of EPS - Hero Honda

(Rs)	FY08E	FY09E
Earlier	43.6	47.9
Revised	47.5	55.5
Chg	9.0%	15.9%

Source: Merrill Lynch Research Estimates

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 13 to 15. Analyst Certification on page 12.

Switch out from Bajaj Auto

In the two wheeler space, we recommend a shift out from Bajaj Auto to Hero Honda. Our revised stand is based on:

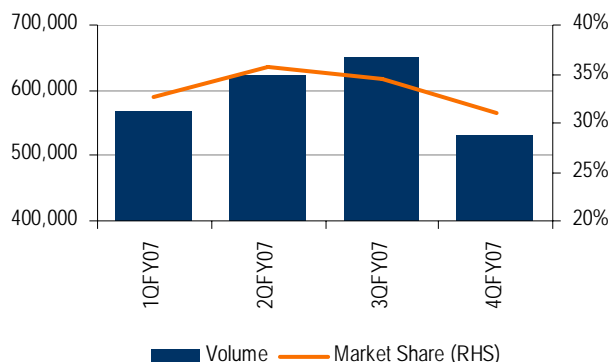
1. Widening market share differential against Bajaj Auto;
2. No earnings growth over our forecast period over FY07-09E, following revision in forecasts, compared to 13.5% CAGR for Hero Honda;
3. Overvalued, despite possible upside from de-merger of manufacturing and financial businesses.

Market share: Bajaj's loss is Hero Honda's gain

Change in trends evident over last quarter

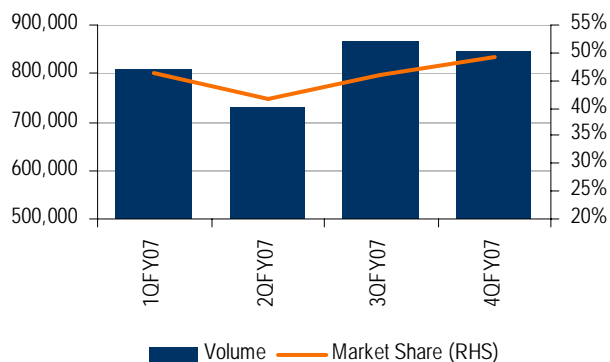
Over the last quarter, Bajaj Auto's overall market share is down 360bps to 31%, mainly losing in the 100cc and 125cc segments. The company has, however, continued to do well in the 150cc segment (*Pulsar* series), albeit losing share from its dominant position. The corresponding gainer has been Hero Honda, whose motorcycles share has expanded 330bps to 49.2%, driven by the success of its recent launches (*CD-Deluxe*, *Glamour*, *CBZ X-treme*). As a result, every segment has contributed to this improvement.

Chart 2: Bajaj has lost significantly in motorcycles



Source: Merrill Lynch Research, Society of Indian Automobile Manufacturers

Chart 3: Hero Honda has been direct beneficiary



Source: Merrill Lynch Research, Society of Indian Automobile Manufacturers

Market share not expected to recover soon

We expect Bajaj Auto's market share to remain muted relative to Hero Honda, over the next few quarters. We base our view on the company's:

1. Diminishing competitive position, mainly in the 100cc (entry) and 125cc (value) segments;
2. Skewed position at the premium end (150cc), where it remains vulnerable.

Table 4: Bajaj Auto's competitive positioning

Segment	Key Models	Monthly sales est.	Sh. of Own Sales (%)	Mkt Sh. (%)
Entry	<i>Platina</i>	95,000	49%	27%
	Losing franchise, volumes coming at lower price			
Value	<i>Discover</i>	50,000	26%	41%
	Losing ground, new launch to straddle entry and value price points			
Premium	<i>Pulsar</i>	50,000	26%	55%
	Still the preferred premium model, but shedding dominance			

Source: Merrill Lynch Research Estimates

Bajaj Auto's redefining of entry segment costly so far

Bajaj Auto's proposed launch of an upgraded platform, as an alternative to the entry segment, and straddling the value segment at the upper end, is innovative. However, revealing this strategy in advance was a miscalculation, as the company has:

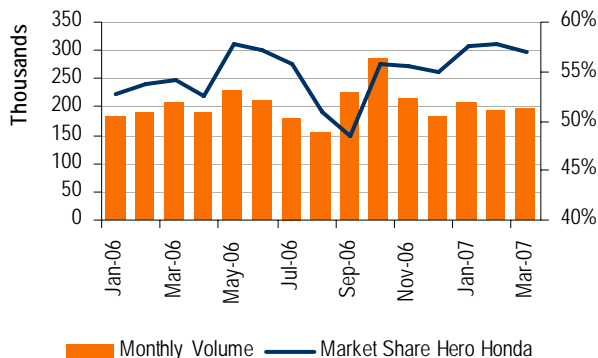
- Vacated the 100cc segment in the customer's mind, much earlier than desired. As a result, franchise of 100cc *Platina*, has diluted dramatically, while enhancing stability and reliability of Hero Honda and its models;
- Confused positioning of existing upgrade i.e. *Discover*, which needs to be pushed up. This has allowed competition to take control of the existing 125cc space.

Hero Honda's models are gaining sharp traction

The following key models of Hero Honda have been steadily increasing acceptance:

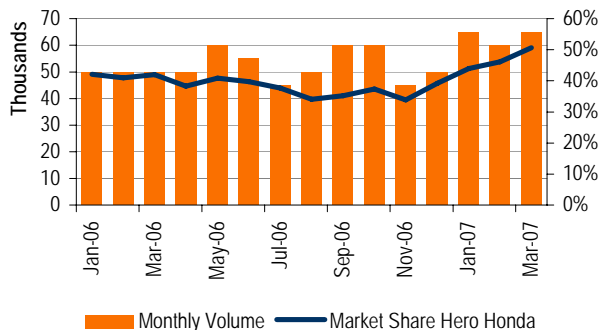
- *CD-Deluxe*, 100cc, retailed at Rs 35,400(ex-showroom Delhi), a marginal premium over competing models, but is the most stylish product in its class. We believe that this will allow Hero Honda to consolidate its dominant position further;
- *Glamour*, 125cc is the largest selling model in the segment. With contemporary looks, and reasonable pricing, the product is well established, implying that competition can only play catch up now.

Chart 4: CD-Deluxe has led success in 100cc segment



Source: Merrill Lynch Research Estimates

Chart 5: Glamour has become the top seller in 125cc segment



Source: Merrill Lynch Research Estimates

New platform can enable stabilized share

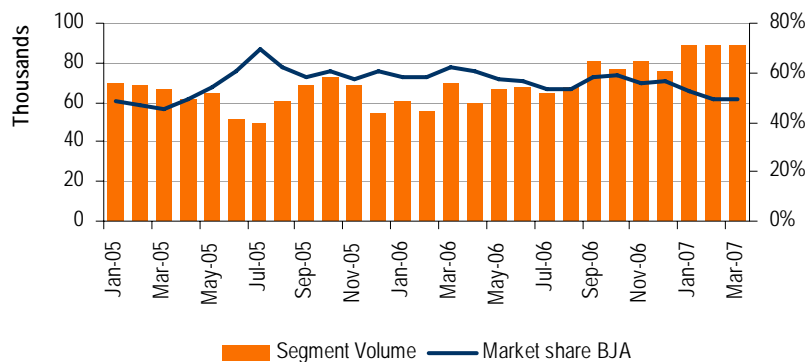
Bajaj Auto's upgraded platform is expected only by Aug 2008. We expect Bajaj Auto to lose further ground until this model hits the road. The declining

momentum implies that the company will have to compete much harder after the lunch. We therefore believe that the platform can at best enable Bajaj Auto to steady its position from latter half of fiscal 2008.

Shedding dominance in 150cc segment

Bajaj Auto remains a dominant player, with the most preferred model i.e. *Pulsar*. However, Hero Honda too has emerged as a strong contender despite its baggage of weak franchise. A much sportier *CBZ X-treme* (improvement over the base model introduced years ago), has enabled the company to take segmental share to ~12% (up from the lows of ~6%).

Chart 6: Bajaj Auto losing dominance



Source: Merrill Lynch Research Estimates

Bajaj Auto will remain vulnerable

Initiatives to expand the range towards the higher end (200cc, 220cc fuel injection version) are a positive move to enhance the *Pulsar* brand. Hero Honda, on its part, is expected to continue building volumes through the *CBZ X-treme*, and is expected to relaunch the failed 150cc *Achiever* soon, with similar improvements. TVS Motor and Honda (fully owned subsidiary) are expected to remain less relevant, but sizeable competitors in this space.

Margin profile to favour Hero Honda

Two wheeler sector margins are estimated to decline 330bps last fiscal to 9.7%, mainly due to irrational pricing initiatives by both Hero Honda and Bajaj Auto. We probably have seen the worst in terms of decline, but based on our revised view, we expect Hero Honda's margins to stabilize and improve much faster than Bajaj Auto's. Over FY07-09E, we expect:

- Bajaj Auto's margins to decline further by 170bps (estimated 310bps last year), on the back of weakening position of key segments; margins would therefore deteriorate before stabilizing.
- Hero Honda's margins to be flat, benefiting from improved pricing power of 100cc and 125cc models; margins would therefore stabilize before improving.

Bajaj Auto burdened with demand, cost related issues

We expect Bajaj Auto's margins to deteriorate further, due to:

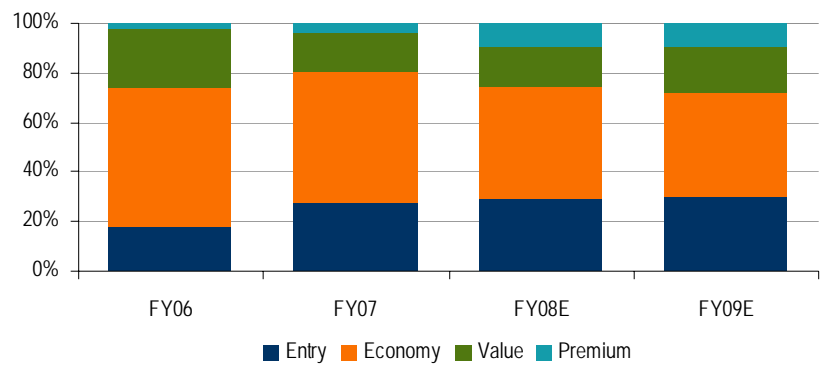
- Weak demand for key models, namely *Platina* and *Discover*, which are losing market share to competition. Collectively, these account for ~75% of the company's segment volume.
- Reduced blended realizations, as new products are launched at lower price points, and existing products are retailed at lower prices compared to last year; this negates improving product mix in terms of engine displacement.
- Higher fixed overheads following commissioning of new plant in Uttaranchal. Excise benefit will be necessarily passed on to compensate for losing product franchise, and startup costs will have negative impact.

Hero Honda aided by diminishing competitive intensity

We expect Hero Honda's margins to stabilize soon, given its strong volume traction. We expect improvement over subsequent quarters, driven by:

- Better product mix, with shift to value and premium segments (28% by FY09 from 20% last year).
- Improved pricing power, as we expect the company to raise prices of the 100c and 125cc bikes, given its improving competitive position as much as Bajaj Auto's diminishing intensity within these segments.

Chart 7: Hero Honda's product mix to improve



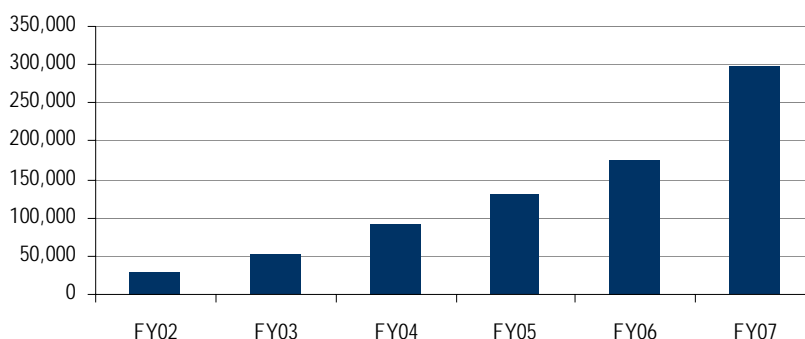
Source: Merrill Lynch Research Estimates

Exports: long term opportunity for Bajaj Auto

Bajaj Auto is entering larger markets

Bajaj Auto has commenced assembly operations at its two wheeler plant in Indonesia (sales ~4.5mn units), tied up with the country's third-largest financier, and is also gradually expanding its distribution network. We expect the company to make a slow start, given established competition from Japanese players, and tough financing norms. However, given the strong R&D capabilities and cost competitive advantage, we expect the initiative to succeed over a period of 3-5 years.

Chart 8: Strong export showing to continue



Source: Merrill Lynch Research, Society of Indian Automobile Manufacturers

Hero Honda restricted by collaborator

Hero Honda is restricted by its collaboration, since the company cannot enter markets where Honda already has an established presence. The company has made a successful foray in the relatively small markets, e.g. Sri Lanka, Bangladesh, part of Africa etc, with exports rising at a CAGR of 35% over the past 3 years. However, unless other larger and more relevant markets become accessible, we expect Hero Honda's sales to hit a roadblock.

Revision of forecasts

Bajaj Auto's earnings to decline in FY08E

We are sharply reducing EPS forecasts for Bajaj Auto, mainly by lowering volume expectations, as we believe it will be difficult for the company to regain its diminishing domestic franchise soon, and also on cutting production to reduce high inventory levels. We expect sales to grow 3.5% in FY08 (earlier ~8% growth). We expect gradual ramp-up towards the latter half following launch of new platform, which is also reflected in the 9.5% downward revision in FY09E. We are also lowering blended two wheeler realizations by 3.2% and 2.2% respectively, which will have a negative impact on margins.

Table 5: Revision of estimates

(Rs bn)	Earlier		Revised		Revision	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
2Ws ('000)	2,592	2,953	2,473	2,776	-4.6%	-6.0%
3Ws ('000)	341	372	341	372	0.0%	0.0%
Total Volume ('000)	2,933	3,325	2,814	3,148	-4.1%	-5.3%
Net Sales	103.3	116.8	97.6	109.8	-5.6%	-6.0%
EBITDA	13.9	15.7	12.2	14.0	-12.0%	-11.4%
Margins (%)	13.4%	13.5%	12.5%	12.7%	-91bps	-78bps
EPS (Rs)	121.6	136.3	109.8	123.3	-9.7%	-9.5%

Source: Merrill Lynch Research Estimates

Hero Honda's estimates upped sharply

We are raising forecasts for Hero Honda by 9% in FY08 and 15.6% in FY09, largely on expectations of improving margins. We are, however, lowering sales, to adjust for the lower base effect of FY07, but improving mix in favour of 125cc and 150cc models. The composite effect is reflected in average realization, which is raised by 2.6% in FY08E and 2.8% in FY09E.

Table 6: Revision of estimates

	Earlier		Revised		Revision	
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Volumes ('000 nos)	3,800	4,160	3,683	4,145	-3.1%	-0.4%
Net Sales (Rsbn)	110.2	122.1	109.5	125.0	-0.6%	2.4%
EBITDA (Rsbn)	11.9	13.2	13.0	15.2	8.8%	15.0%
Margins (%)	10.8%	10.8%	11.8%	12.1%	102bps	133bps
EPS (Rs)	43.6	47.9	47.5	55.5	9.0%	15.9%

Source: Merrill Lynch Research Estimates

Interim results will remain weak

We expect weak quarterly performances through to Q1 FY08 (in the case of Bajaj Auto, even Q2). We expect Bajaj Auto to register severe YoY declines, largely on the back of inventory corrections and lower margins. In the case of Hero Honda, we expect margin pressures to continue over the near term. However, a relatively stronger top line should enable the company to register just a marginal YoY decline in Q1, but a strong YoY rebound in Q2.

Table 7: Quarterly YoY growth estimates

	Hero Honda			Bajaj Auto		
	4QFY07E	1QFY08E	2QFY08E	4QFY07E	1QFY08E	2QFY08E
Net Sales	12.0%	6.9%	20.0%	2.4%	-5.7%	-5.6%
EBITDA	-24.1%	-7.5%	11.6%	-32.9%	-30.9%	-22.2%
Net Profit	-27.2%	-7.7%	11.3%	-16.3%	-14.8%	-12.5%

Source: Merrill Lynch Research Estimates

Valuation: Bajaj Auto is overvalued

We believe Bajaj Auto is overvalued, mainly due to deteriorating two wheeler business prospects over the next year. Hero Honda is relatively more attractive, given the stronger growth prospects over the medium term, superior ROE, and higher dividend payout ratio.

Table 8: Comparative valuation

	Inv. Rating	PER			PEG	ROE	EV/EBITDA
		FY07E	FY08E	FY09E	FY07-09E	FY07E	FY09E
Bajaj Auto*	Sell	16.3	16.0	12.7	23.8	24.9	7.8
Hero Honda	Neutral	16.3	14.8	12.6	1.2	38.8	7.4

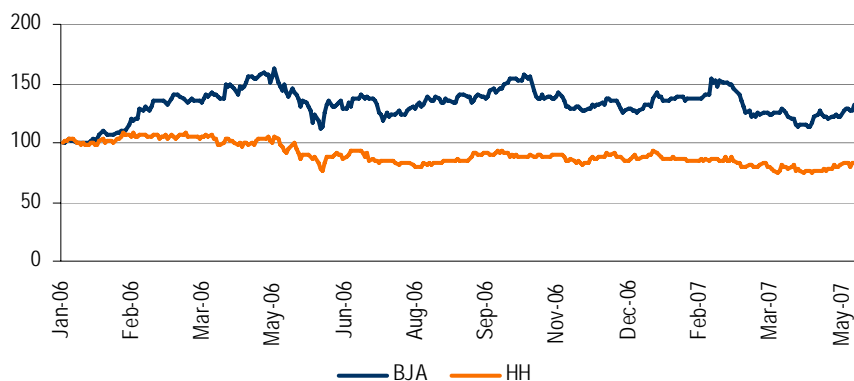
Source: Merrill Lynch Research Estimates

* Bajaj Auto's multiple excludes value of insurance subsidiaries for relevant years

We expect relative stock performance trends to reverse

Hero Honda has underperformed Bajaj Auto for well over a year, validating our ratings on the individual stocks. We believe that trends will reverse, given our expectation of Hero Honda's improved operating performance being much stronger than Bajaj Auto's.

Chart 9: Hero Honda's underperformance to Bajaj Auto may be past



Source: Merrill Lynch Research, Bloomberg

Valuations will remain capped

The sector peaked at >20x 1-year forward P/E multiple last year, and is presently down to 15x. We believe that multiples are approaching realistic levels of 12-14x. We expect Hero Honda to trade at the higher end of the band, due to its superior growth, and Bajaj Auto at the lower end of the band, due to deteriorating fundamentals.

Chart 10: 1-year forward P/Es still above historical averages

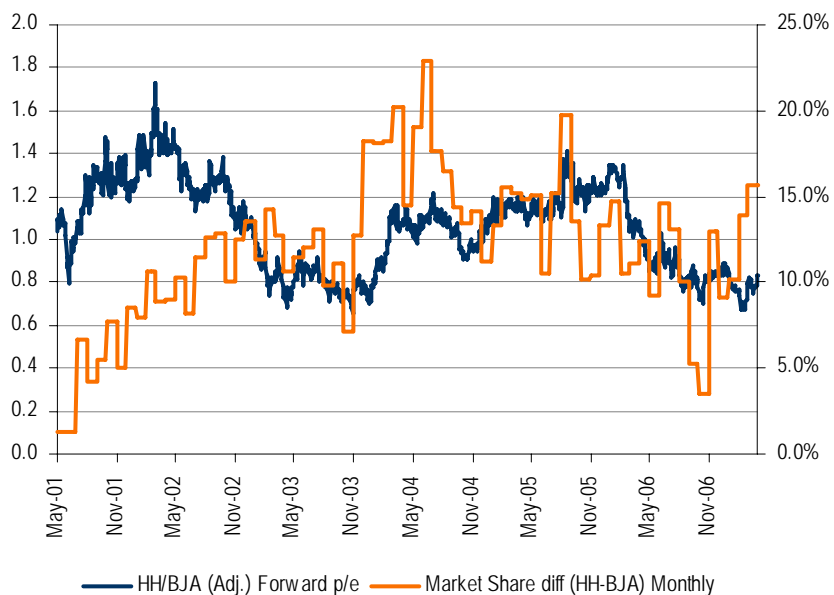


Source: Merrill Lynch Research, Bloomberg

Market share correlation to valuations is strong

Market share swings are a key determinant of stock valuations. This is illustrated in Chart 11 below, where differentials in P/E and market share show a strong correlation in the case of Bajaj Auto and Hero Honda. Over the past quarter, the market share differential has increased, and we expect valuations to follow.

Chart 11: Market share differential widening in favour of Hero Honda



Source: Merrill Lynch Research

Hero Honda raised to Neutral

We believe that EV/EBITDA would a fair valuation parameter, given the ability of the sector to generate strong operating and free cash flows. Our benchmark free cash multiple of 10x gives an imputed EV/EBITDA multiple of ~7.5x, since free cash averages ~75% of post-tax EBITDA over our forecast period. We expect Hero Honda to trade at a marginal premium given expectations of stronger free cash flows i.e. 8x, which gives us our theoretical fair value estimate of Rs 747.

Table 9: Fair value

	FY09 Target	FY09					
	EV/EBITDA	EBITDA	EV	Net Debt	Equity value	O/s Share	Per share value
Bajaj Auto*	7.0	14,151	99,055	(47,160)	146,215	101.2	1,445
Hero Honda	8.0	15,165	121,319	(27,870)	149,189	199.7	747

Source: Merrill Lynch Research Estimate

* 1,445 = Core business at 979 + Investments at 466. Total = Rs 2,448, including value of insurance subsidiaries.

Bajaj Auto downgraded to Sell

Our sum of parts value is revised down to Rs 2,448 (earlier Rs 2568), which is lower than the present market price. Bajaj Auto's valuations will reflect the sum of:

1. Manufacturing i.e. two wheeler/autos; and
2. Financial assets, which includes cash and insurance, given the likely de-merger from autos.

Two wheeler business to deteriorate

We expect core business will likely trade at 7x EV/EBITDA, a discount to the benchmark average, given deteriorating prospects over the medium term. It implies a P/E of 11.7x for FY09E for its operations, excluding insurance subsidiaries.

Insurance business could surprise

We have valued Insurance subsidiaries at Rs 1003/share. However, the company's life insurance premia have grown sharply in FY07, especially in Mar'07 (data out yesterday) growing at 147% YoY (after adjusting for single premia growth). During Mar'07 Bajaj topped market share charts with an estimated 26% market share, taking it ahead of the ICICI Prudential, the market leader. These are about 28% higher than our current ML insurance forecasts for Bajaj Allianz. Hence, this could result in some upside to the insurance estimates.

Table 10: Sum-of-parts valuation

	Imputed Multiple	Value (Rsmn)	Per Share (Rs)	% of total
Core Business	7x EBITDA	99,055	979	40.0%
Investments				
Cash & equivalents		47,160	466	19.0%
Subsidiaries				
Life Insurance (60%)	15x NBAP	92,898	918	
General Insurance (74%)	10x P/E	8,564	85	
Insurance value			1,003	41.0%
Total Value		247,676	2,448	

Source: Merrill Lynch Research Estimates

Analyst Certification

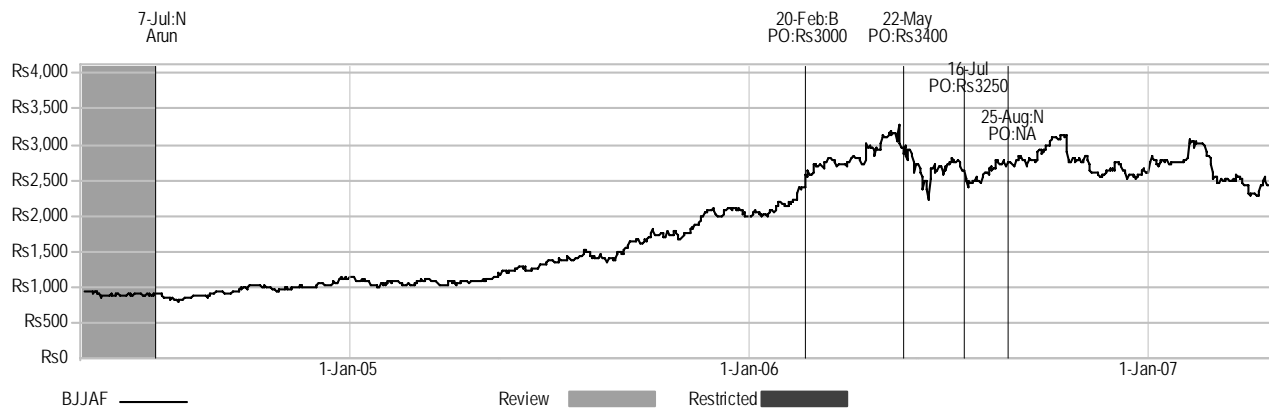
I, S. Arun, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

Important Disclosures

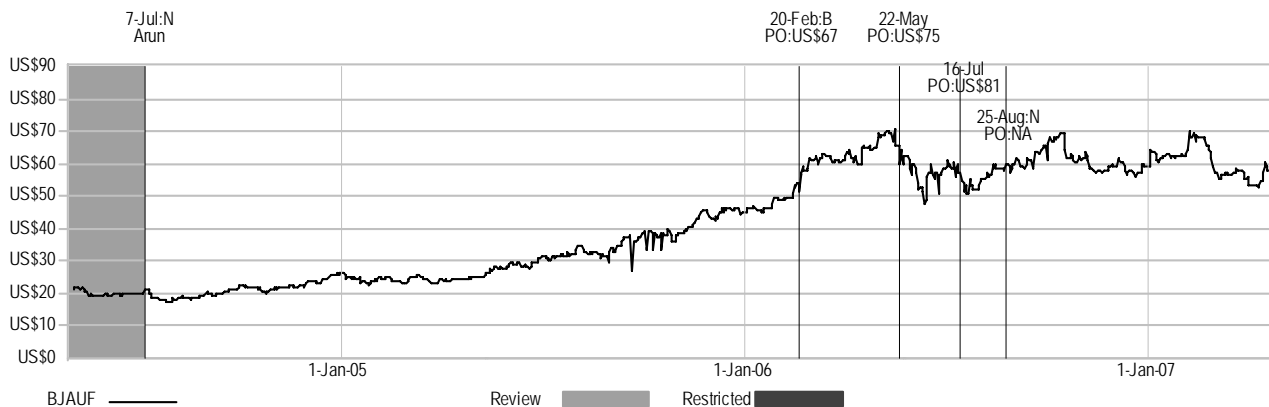
BJJAF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

BJAUF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

10 May 2007

XHROF Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of April 30, 2007 or such later date as indicated.

Investment Rating Distribution: Autos Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	39	41.94%	Buy	8	25.00%
Neutral	40	43.01%	Neutral	3	8.82%
Sell	14	15.05%	Sell	1	7.69%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. **INVESTMENT RATINGS**, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. **INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Bajaj Auto. The company is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates: Bajaj Auto. In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Bajaj Auto, Hero Honda. MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Bajaj Auto, Hero Honda. The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Bajaj Auto, Hero Honda. The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Bajaj Auto. The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.