

October 31, 2011

| Reco | Previous Reco |
|--------------------------|---------------|
| Accumulate | Hold |
| CMP | Target Price |
| Rs772 | Rs950 |
| EPS change FY12E/13E (%) | NA |
| Target Price change (%) | NA |
| Nifty | 5,327 |
| Sensex | 17,705 |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|---------------|-----|------|------|------|
| Absolute | 1 | (12) | (13) | (24) |
| Rel. to Nifty | (6) | (10) | (7) | (14) |

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

| | Banks |
|-----------------------------|-----------|
| Sector | Banks |
| Bloomberg | BOB@IN |
| Equity Capital (Rs mn) | 3915 |
| Face Value(Rs) | 10 |
| No of shares o/s (mn) | 392 |
| 52 Week H/L | 1,050/681 |
| Market Cap (Rs bn/USD mn) | 302/6,188 |
| Daily Avg Volume (No of sh) | 457712 |
| Daily Avg Turnover (US\$m) | 7.3 |

Shareholding Pattern (%)

| | Sep-11 | Jun-11 | Mar-11 |
|--------------|--------|--------|--------|
| Promoters | 57.0 | 57.0 | 57.0 |
| FII/NRI | 14.9 | 16.6 | 17.1 |
| Institutions | 16.8 | 16.3 | 16.0 |
| Private Corp | 6.2 | 4.8 | 4.7 |
| Public | 5.1 | 5.2 | 5.2 |

Source: Capitaline

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- **BOB's Q2FY12 NII at Rs25.7bn and PAT at Rs11.6bn above our/consensus estimates. PAT further aided by higher non-interest income**
- **Balance sheet expanded 4.7% sequentially; growth in deposits / loans came in at 5.2% / 2.9% qoq respectively. Domestic NIM up 28bps qoq to 3.67%**
- **Asset quality remains stable sequentially. Slippages came in at Rs4.9bn (0.9% annualized). However, reco/upgrade rates equally lower at 24% of opening GNPA's**
- **Valuations at 1.3x/1.1x FY12E/FY13E ABV. Upgrade to ACCUMULATE on recent correction with price target of Rs950**

Results above expectations; balance sheet growth remains healthy

Bank of Baroda Q2FY12 NII at Rs25.7bn (up 26% yoy) was significantly ahead of our and consensus estimates. The growth in NII was aided by healthy loan growth and improved yields on advances primarily on domestic front. Global NIM expanded 20bps qoq to 3.1% largely aided by 28bps qoq expansion in domestic NIM. Higher growth in core fee-income (up 26% yoy) and improved recoveries (from w/off accounts) compensated for lower trading gains. As a result, despite higher provision towards NPA including investment depreciation, adjusted net profit at Rs11.6bn was up 14.4% yoy.

The Balance sheet expanded 4.7% qoq (23.8% yoy) on back of healthy 7% qoq growth in investments and 11% qoq growth in inter-bank balances. Loan portfolio expanded 2.9% qoq and 23.9% yoy. Amongst deposits, significant accretion was witnessed amongst foreign deposits (up 10.5% qoq and 32.7% yoy). Domestic CASA deposits ratio stood at 34.2%, flat yoy.

Yield analysis

| % | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (bps) | QoQ (bps) |
|-----------------------|--------|--------|--------|--------|--------|-----------|-----------|
| Yield on advances* | 8.1 | 8.4 | 8.4 | 8.8 | 9.3 | 119 | 49 |
| Yield on investments* | 7.0 | 7.4 | 7.4 | 7.0 | 7.2 | 24 | 20 |
| Yield on assets* | 6.8 | 7.1 | 7.4 | 7.3 | 7.7 | 90 | 38 |
| Cost of funds* | 4.1 | 4.2 | 4.3 | 4.8 | 4.9 | 86 | 19 |
| NIM* | 2.7 | 2.9 | 3.0 | 2.5 | 2.7 | 4 | 19 |
| Yield on Advances# | 8.4 | 8.6 | 8.7 | 9.1 | 9.6 | 124 | 53 |
| Cost of deposits# | 4.5 | 4.5 | 4.8 | 5.4 | 5.6 | 111 | 25 |
| NIM# | 3.0 | 3.2 | 3.5 | 2.9 | 3.1 | 5 | 20 |

Source: Company, Emkay Research Note: * Calculated on basis of average quarterly balances # reported

Valuation table

| Y/E March 31 | Net income | Net profit | EPS (Rs) | ABV (Rs) | RoA (%) | RoE (%) | PE (x) | P/ABV (x) |
|--------------|------------|------------|----------|----------|---------|---------|--------|-----------|
| FY2010 | 87,458 | 30,583 | 83.7 | 396.8 | 1.2 | 21.9 | 9.2 | 1.9 |
| FY2011 | 62,263 | 21,989 | 56.0 | 514.3 | 1.3 | 23.5 | 7.1 | 1.5 |
| FY2012E | 133,591 | 48,216 | 122.7 | 602.8 | 1.2 | 21.0 | 6.3 | 1.3 |
| FY2013E | 153,100 | 56,406 | 143.6 | 713.1 | 1.2 | 20.7 | 5.4 | 1.1 |

Source: Company, Emkay Research

Key financials – Quarterly

| Rs mn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) | YTD'12 | YTD'11 | YoY (%) |
|--------------------------|--------|--------|--------|--------|--------|---------|---------|--------|--------|---------|
| Net Interest Income | 20,381 | 22,923 | 26,139 | 22,972 | 25,669 | 25.9 | 11.7 | 48,641 | 38,961 | 24.8 |
| Other Income | 6,813 | 6,762 | 8,345 | 6,279 | 7,343 | 7.8 | 17.0 | 13,622 | 12,985 | 4.9 |
| Fee Income | 2,483 | 3,187 | 2,522 | 2,748 | 3,137 | 26.3 | 14.2 | 5,884 | 4,498 | 30.8 |
| Net Income | 27,194 | 29,684 | 34,484 | 29,251 | 33,013 | 21.4 | 12.9 | 62,263 | 51,947 | 19.9 |
| Total Operating Expenses | 10,627 | 11,172 | 15,026 | 11,068 | 11,613 | 9.3 | 4.9 | 22,681 | 20,101 | 12.8 |
| As % Of Net Income | 39.1 | 37.6 | 43.6 | 37.8 | 35.2 | | | 36.4 | 38.7 | |
| Employee Expenses | 6,562 | 6,942 | 9,897 | 6,454 | 6,466 | -1.5 | 0.2 | 12,920 | 12,329 | 4.8 |
| As % Of Net Income | 24.1 | 23.4 | 28.7 | 22.1 | 19.6 | | | 20.8 | 23.7 | |
| Other Expenses | 4,065 | 4,230 | 5,129 | 4,614 | 5,147 | 26.6 | 11.5 | 9,761 | 7,772 | 25.6 |
| As % Of Net Income | 14.9 | 14.3 | 14.9 | 15.8 | 15.6 | | | 15.7 | 15.0 | |
| Operating Profit | 16,567 | 18,512 | 19,458 | 18,183 | 21,400 | 29.2 | 17.7 | 39,582 | 31,846 | 24.3 |
| As % Of Net Income | 60.9 | 62.4 | 56.4 | 62.2 | 64.8 | | | 63.6 | 61.3 | |
| Provisions | 1,855 | 3,041 | 5,904 | 3,911 | 4,833 | 160.6 | 23.6 | 8,744 | 4,368 | 100.2 |
| Prov for NPA | 1,423 | 2,064 | 4,244 | 1,320 | 2,981 | 109.6 | 125.9 | 4,301 | 4,198 | 2.4 |
| PBT | 14,712 | 15,471 | 13,554 | 14,272 | 16,436 | 11.7 | 15.2 | 30,709 | 27,478 | 11.8 |
| Total Tax | 4,519 | 4,783 | 611 | 3,944 | 4,776 | 5.7 | 21.1 | 8,719 | 8,693 | 0.3 |
| Adjusted PAT | 10,193 | 10,689 | 12,944 | 10,329 | 11,753 | 15.3 | 13.8 | 22,082 | 18,785 | 17.5 |
| Extra Ordinary Items | 0 | 0 | 0 | 0 | 130 | | | 130 | 0 | |
| Reported PAT | 10,193 | 10,689 | 12,944 | 10,329 | 11,661 | 14.4 | 12.9 | 21,989 | 18,785 | 17.1 |
| Reported EPS | 27.9 | 29.2 | 33.0 | 26.3 | 29.7 | 6.5 | 12.9 | 56.0 | 51.4 | 8.9 |

Source: Company, Emkay Research

Sequential rise in domestic NIM aided by higher yields and loan mix

Domestic NIM at 3.67% expanded 28bps qoq. This increase in margins was primarily due to 1) 91bps increase in yields on domestic loan portfolio 2) 13bps increase in yield on investments and 3) improved loan mix (MSME segment was up 6.3% qoq and 28.3% yoy).

Domestic loan book flat; international book gains from INR depreciation

During Q2FY12, international loan portfolio expanded 10% qoq (36.7% yoy) and comprised 29% of the total book. Even on the deposit front, foreign deposits were up 10.5% qoq (32.7% yoy). The domestic loan portfolio has remained flat qoq driven by contraction in the retail and agriculture portfolio.

However, NIM on the international front has remained in sub-1.5% levels for past several quarters (Q2FY12 of 1.42%) and we expect management to shift its focus to high-yielding segments on domestic front.

Advances mix – International loans accounted for 29% of total advances...

| Rs bn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) |
|-------------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|
| Foreign | 513 | 552 | 593 | 637 | 701 | 36.7 | 10.0 |
| Mid-corporate/SME | 235 | 253 | 274 | 284 | 301 | 28.3 | 6.3 |
| Agriculture | 216 | 231 | 245 | 232 | 226 | 4.9 | -2.6 |
| Retail | 272 | 296 | 324 | 309 | 299 | 9.9 | -3.4 |
| Others | 694 | 741 | 851 | 861 | 864 | 24.4 | 0.3 |
| Total | 1,930 | 2,072 | 2,287 | 2,323 | 2,391 | 23.9 | 2.9 |

Source: Company, Emkay Research

... foreign deposits accounted for 26% of total deposits

| Rs bn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) |
|------------------|--------|--------|--------|--------|--------|---------|---------|
| CASA | 739 | 756 | 802 | 802 | 833 | 12.6 | 3.8 |
| Term deposits | 2,060 | 2,154 | 2,333 | 2,365 | 2,447 | 18.8 | 3.5 |
| Foreign deposits | 637 | 661 | 721 | 764 | 845 | 32.7 | 10.5 |
| Total Deposits | 2,697 | 2,815 | 3,054 | 3,129 | 3,292 | 22.1 | 5.2 |
| CASA (%) | 34.2 | 33.6 | 33.2 | 33.4 | 34.2 | 0 | 81 |

Source: Company, Emkay Research

Higher core fee-inc and better recovery compensate for trading gains

Higher core fee income at Rs3.1bn (up 26.3%) and improved recoveries at Rs1.2bn (up 76.4% yoy) compensated for lower trading gains. Resultant, growth in non-interest income came in at a tad lower of 8% yoy.

Other income

| Rs mn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) | YTD'12 | YTD'11 | YoY (%) |
|------------------------|--------------|--------------|--------------|--------------|--------------|------------|-------------|---------------|---------------|------------|
| Fee/Commission income | 2,483 | 3,187 | 2,522 | 2,748 | 3,137 | 26.3 | 14.2 | 5,884 | 4,498 | 30.8 |
| Trading gains/(losses) | 1,000 | 848 | 1,310 | 740 | 102 | -89.9 | -86.3 | 842 | 2,280 | -63.1 |
| Forex gains/(losses) | 1,101 | 1,471 | 1,359 | 1,400 | 1,473 | 33.8 | 5.2 | 2,873 | 2,317 | 24.0 |
| Recoveries | 692 | 615 | 859 | 288 | 1,220 | 76.4 | 324.1 | 1,507 | 1,253 | 20.3 |
| Total | 6,813 | 6,762 | 8,345 | 6,279 | 7,343 | 7.8 | 17.0 | 13,622 | 12,985 | 4.9 |

Source: Company, Emkay Research

Asset quality remains stable; Agri and MSME continue to witness stress

GNPA at Rs34.1bn remained flat sequential. However, it continues to witness stress across segments of agriculture (4.6%) and MSME (3.1%). The bank has made a provision of Rs2.9bn towards NPA (0.12% of advances) including provision of Rs0.5bn towards standard assets. Restructured loan portfolio stood at Rs78.3bn or 3.3% of total loans.

Break up of provisions

| Rs mn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) | YTD'12 | YTD'11 | YoY (%) |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|
| On NPL | 1,423 | 2,064 | 4,244 | 1,320 | 2,981 | 109.6 | 125.9 | 4,301 | 4,198 | 2.4 |
| As % of advances | 0.07 | 0.10 | 0.19 | 0.06 | 0.12 | | | 0.30 | 0.22 | |
| On Standard Assets | 520 | 369 | 1,061 | 1,129 | 469 | -9.8 | -58.5 | 1,599 | 809 | 97.7 |
| Investment Dep | -201 | 535 | 346 | 1,385 | 1,450 | -821.0 | 4.7 | 2,835 | -790 | -458.8 |
| Others | 113 | 73 | 253 | 76 | -67 | -159.3 | -187.9 | 9 | 152 | -93.9 |
| Total | 1,855 | 3,041 | 5,904 | 3,911 | 4,833 | 160.6 | 23.6 | 8,744 | 4,368 | 100.2 |

Source: Company, Emkay Research

NPA profile

| Rs Mn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) |
|------------------------|--------|--------|--------|--------|--------|---------|---------|
| Gross NPA (Rs bn) | 27,199 | 27,703 | 31,525 | 34,255 | 34,021 | 25.1 | -0.7 |
| Net NPA (Rs bn) | 7,313 | 7,442 | 7,909 | 10,244 | 11,186 | 53.0 | 9.2 |
| Gross NPA (%) | 1.4 | 1.3 | 1.4 | 1.5 | 1.4 | | |
| Net NPA (%) | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | | |
| Net NPLs/Net worth (%) | 4.3 | 4.1 | 3.8 | 4.7 | 4.7 | | |
| Provision cover (%) | 73.1 | 73.1 | 74.9 | 70.1 | 67.1 | | |

Source: Company, Emkay Research

Slippages well under control at <1% level; but recovery rates equally low

Slippages for H1FY12 stood at Rs10.7bn (up 13% yoy). However, they still remain under control at 0.9% annualized. Bank of Baroda credit cost at 0.4% annualized has remained relatively lower to its peers.

Nonetheless, the recovery and upgradation rates have also remained significantly lower. The recovery and upgradations as % of opening GNPA's stood at 24% (annualized) compared to 38% in FY09 and 27% in FY11.

While we have built in just 40bps on provision costs in our numbers (consensus being no different), such low recovery rates could result in significant downgrade in earnings if the slippage rate moves up.

Slippages

| Rs bn | Q2FY11 | Q3FY11 | Q4FY11 | Q1FY12 | Q2FY12 | YoY (%) | QoQ (%) |
|--------------------|--------|--------|--------|--------|--------|---------|---------|
| Cumulative (Rs mn) | 9,543 | 11,940 | 18,452 | 5,848 | 10,772 | 12.9 | |
| Quarterly (Rs mn) | 2,881 | 2,397 | 6,512 | 5,848 | 4,924 | 70.9 | -15.8 |
| Cumulative (%) | 0.49 | 0.58 | 0.81 | 0.25 | 0.45 | | |
| Quarterly (%) | 0.15 | 0.12 | 0.28 | 0.25 | 0.21 | | |

Source: Company, Emkay Research

Valuations and view

Bank of Baroda has outperformed its peers primarily due to its ability to deliver on balance sheet growth front, with stable asset quality and NIM. We drive comfort in the bank given valuations of 1.3x/1.1x FY12E/FY13E ABV respectively with average RoE/RoA of 21.8%/1.3% over FY11-13E. Recent correction in the stock brings decent upside to our TP. Upgrade to ACCUMULATE from HOLD with price target of Rs950.

Key Financials**Income Statement (Rs. Mn)**

| (Year Ending Mar 31) | FY10 | FY11 | FY12E | FY13E |
|----------------------------|------------|------------|------------|------------|
| Net interest income | 59,395 | 48,641 | 103,778 | 119,561 |
| Other income | 28,064 | 13,622 | 29,813 | 33,539 |
| Net income | 87,458 | 62,263 | 133,591 | 153,100 |
| Operating expenses | 38,106 | 22,681 | 49,716 | 56,128 |
| Pre provision profit | 49,353 | 39,582 | 83,875 | 96,972 |
| PPP excl treasury | 42,120 | 65,379 | 82,075 | 95,172 |
| Provisions | 6,972 | 8,744 | 14,995 | 16,392 |
| Profit before tax | 42,381 | 56,503 | 68,880 | 80,580 |
| Tax | 11,797 | 8,719 | 20,664 | 24,174 |
| <i>Tax rate</i> | <i>28%</i> | <i>15%</i> | <i>30%</i> | <i>30%</i> |
| Profit after tax | 30,583 | 21,989 | 48,216 | 56,406 |

Balance Sheet (Rs. Mn)

| (Year Ending Mar 31) | FY10 | FY11 | FY12E | FY13E |
|----------------------|-----------|-----------|-----------|-----------|
| Liabilities | | | | |
| Equity | 3,655 | 3,928 | 3,928 | 3,928 |
| Reserves | 147,409 | 206,003 | 244,568 | 291,323 |
| Net worth | 151,064 | 209,931 | 248,496 | 295,251 |
| Deposits | 2,410,443 | 3,054,395 | 3,806,031 | 4,564,369 |
| Borrowings | 221,661 | 319,647 | 355,305 | 395,871 |
| Total liabilities | 2,783,167 | 3,583,973 | 4,409,833 | 5,255,492 |
| Assets | | | | |
| Cash and bank | 354,671 | 499,341 | 567,776 | 725,541 |
| Investments | 588,306 | 689,045 | 843,883 | 999,865 |
| Customer assets | 1,773,871 | 2,310,325 | 2,888,246 | 3,392,405 |
| Others | 66,320 | 85,261 | 109,928 | 137,680 |
| Total assets | 2,783,167 | 3,583,973 | 4,409,833 | 5,255,492 |

Key Ratios (%)

| (Year Ending Mar 31) | FY10 | FY11 | FY12E | FY13E |
|-----------------------|------|------|-------|-------|
| NIM | 2.3 | 2.8 | 2.6 | 2.5 |
| Non-ll/avg assets | 1.1 | 0.9 | 0.7 | 0.7 |
| Fee income/avg assets | 0.4 | 0.3 | 0.3 | 0.3 |
| Opex/avg assets | 1.5 | 1.5 | 1.2 | 1.2 |
| Provisions/avg assets | 0.6 | 0.5 | 0.4 | 0.4 |
| PBT/avg assets | 1.5 | 1.6 | 1.6 | 1.5 |
| Tax/avg assets | 0.4 | 0.2 | 0.5 | 0.5 |
| RoA | 1.2 | 1.3 | 1.2 | 1.2 |
| RoAE | 21.9 | 23.5 | 21.0 | 20.7 |
| GNPA (%) | 1.5 | 1.6 | 1.6 | 1.7 |
| NNPA (%) | 0.3 | 0.3 | 0.4 | 0.5 |

Valuations Table

| (Year Ending Mar 31) | FY10 | FY11 | FY12E | FY13E |
|----------------------|--------|--------|--------|--------|
| Net profit (Rs mn) | 30,583 | 21,989 | 48,216 | 56,406 |
| Shares in issue (mn) | 366 | 393 | 393 | 393 |
| EPS (Rs) | 83.7 | 56.0 | 122.7 | 143.6 |
| PER (x) | 9.2 | 7.1 | 6.3 | 5.4 |
| FDEPS(Rs) | 83.7 | 108.0 | 122.7 | 143.6 |
| FDPER (x) | 9.2 | 7.1 | 6.3 | 5.4 |
| Book value (Rs) | 413.3 | 534.4 | 632.6 | 751.6 |
| P/BV (x) | 1.9 | 1.4 | 1.2 | 1.0 |
| Adj book value (Rs) | 396.8 | 514.3 | 602.8 | 713.1 |
| P/ABV (x) | 1.9 | 1.5 | 1.3 | 1.1 |
| P/PPP (x) | 5.7 | 4.3 | 3.6 | 3.1 |
| Dividend yield (%) | 1.9 | 2.1 | 2.7 | 2.7 |

Recommendation History: Bank of Baroda – BOB IN

| Date | Reports | Reco | CMP | Target |
|------------|---|------|-----|--------|
| 27/07/2011 | Bank of Baroda Q1FY12 Result Update | Hold | 875 | 950 |
| 28/04/2011 | Bank of Baroda Q4FY11 Result Update | Buy | 940 | 1,160 |
| 28/01/2011 | Bank of Baroda Q3FY11 Result Update | Buy | 835 | 1,160 |
| 27/12/2010 | Bank of Baroda Company Update | Buy | 889 | 1,160 |

Recent Research Reports

| Date | Reports | Reco | CMP | Target |
|------------|---|------------|-------|--------|
| 24/10/2011 | M&M Financial Services Q2FY12 Result Update | Buy | 640 | 800 |
| 24/10/2011 | Union Bank of India Q2FY12 Result Update | Reduce | 212 | 210 |
| 24/10/2011 | Axis Bank Q2FY12 Result Update | Accumulate | 1,124 | 1,380 |
| 20/10/2011 | Yes Bank Q2FY12 Result Update | Accumulate | 285 | 340 |

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