Company Focus

27 September 2007 | 10 pages

Pantaloon (PART.BO)

Buy: FY07 Slightly Weak, But Ample Near-Term Stock Triggers

- **FY07 results slightly weak** — Reported FY07 EBITDA growth of 44.1% was 5pts below our estimate. This was due to lower gross margins, which declined 173bps due to: 1) product disruptions, due to operational restructuring, and 2) a shift in product mix towards lower margin electronics and mobile phones. Margins are likely to look up from 1QFY08E. Maintain Buy/Medium Risk (1M).
- **Don't worry about consolidated EPS** — Consolidated FY07 EPS of Rs2.6 looks surprisingly low in contrast to parent EPS of Rs8.3, but this should not be a cause for worry. Pantaloon has invested in various new businesses, which are currently in the investment phase and are likely to bleed for some time. Nevertheless, we see ample value in these new businesses and would urge investors to view the consolidated results in this context.
- **Ample near term stock triggers** — There are ample near-term triggers for Pantaloon's stock, in our view, key being likely capital infusion/listing of some of the subsidiaries (some currently loss making). Subsidiaries that we expect will likely unlock value over the next three months are Future Capital, Future Media and Future Bazaar, which we capture in our SOTP based price target.
- **Outlook remains positive** — We maintain our positive outlook on the core business – margins will likely look up from 1QFY08E. In addition, Pantaloon's aggressive new store roll out is on track, and management expects total space to increase to 11m sq. ft by end FY08 and 18m sq. ft. by FY09.

Buy/Medium Risk	1M
Price (27 Sep 07)	Rs544.10
Target price	Rs626.00
Expected share price return	15.1%
Expected dividend yield	0.1%
Expected total return	**15.2%**
Market Cap	Rs79,847M US$2,017M

Price Performance (RIC: PART.BO, BB: PF IN)

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	642	4.86	38.5	111.9	13.6	17.1	0.1
2007A	1,200	8.28	70.2	65.7	8.6	16.6	0.1
2008E	1,890	13.03	57.5	41.7	6.0	16.9	0.1
2009E	2,394	16.51	26.7	33.0	7.5	20.2	0.2
2010E	2,957	20.39	23.5	26.7	6.0	24.9	0.2

Source: Powered by dataCentral

Princy Singh[1]
+91-22-6631-9871
princy.singh@citi.com

Pragati Khadse[1]
+91-22-6631-9856
pragati.khadse@citi.com

Aditya Mathur[1]
aditya.mathur@citi.com

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

[1]Citigroup Global Markets India Private Limited

Fiscal year end 30-Jun	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	111.9	65.7	41.7	33.0	26.7
EV/EBITDA adjusted (x)	56.9	39.2	20.4	15.7	13.1
P/BV (x)	13.6	8.6	6.0	7.5	6.0
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Per Share Data (Rs)					
EPS adjusted	4.86	8.28	13.03	16.51	20.39
EPS reported	4.86	8.28	13.03	16.51	20.39
BVPS	39.91	63.60	91.07	72.17	91.41
DPS	0.51	0.41	0.65	0.83	1.02
Profit & Loss (RsM)					
Net sales	18,690	32,367	60,206	84,490	108,690
Operating expenses	-17,431	-30,580	-56,600	-79,398	-102,060
EBIT	**1,258**	**1,787**	**3,606**	**5,092**	**6,629**
Net interest expense	-369	-898	-967	-1,586	-2,289
Non-operating/exceptionals	20	32	100	40	40
Pre-tax profit	**909**	**921**	**2,739**	**3,546**	**4,381**
Tax	-277	-610	-849	-1,152	-1,424
Extraord./Min.Int./Pref.div.	10	889	0	0	0
Reported net income	**642**	**1,200**	**1,890**	**2,394**	**2,957**
Adjusted earnings	642	1,200	1,890	2,394	2,957
Adjusted EBITDA	1,466	2,156	4,207	5,905	7,643
Growth Rates (%)					
Sales	77.5	73.2	86.0	40.3	28.6
EBIT adjusted	62.3	42.1	101.8	41.2	30.2
EBITDA adjusted	61.4	47.0	95.1	40.3	29.5
EPS adjusted	38.5	70.2	57.5	26.7	23.5
Cash Flow (RsM)					
Operating cash flow	**-2,626**	**-1,059**	**161**	**-2,484**	**-164**
Depreciation/amortization	208	369	601	813	1,014
Net working capital	-3,610	-2,769	-2,379	-5,690	-4,135
Investing cash flow	**-1,335**	**-1,935**	**-1,166**	**0**	**0**
Capital expenditure	-1,335	-1,935	-1,166	0	0
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,565**	**4,715**	**3,642**	**6,740**	**7,644**
Borrowings	3,152	1,983	2,749	6,875	7,810
Dividends paid	-77	-68	-107	-135	-167
Change in cash	**1,604**	**1,721**	**2,638**	**4,255**	**7,479**
Balance Sheet (RsM)					
Total assets	**14,174**	**21,306**	**31,564**	**39,066**	**53,179**
Cash & cash equivalent	218	300	5	5	5
Accounts receivable	170	266	330	463	596
Net fixed assets	3,955	5,100	8,370	11,085	13,431
Total liabilities	**8,916**	**12,083**	**18,358**	**28,602**	**39,924**
Accounts payable	2,298	3,199	5,989	8,646	11,390
Total Debt	6,014	7,997	10,746	17,620	25,431
Shareholders' funds	**5,269**	**9,222**	**13,206**	**10,464**	**13,254**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	7.8	6.7	7.0	7.0	7.0
ROE adjusted	17.1	16.6	16.9	20.2	24.9
ROIC adjusted	13.0	9.6	15.8	15.6	15.6
Net debt to equity	110.0	83.5	81.3	168.3	191.8
Total debt to capital	53.3	46.4	44.9	62.7	65.7

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

Powered by: dataCentral

FY07 Slightly Below Expectations

Pantaloon's FY07 results were slightly below our expectations, with EBITDA profits (standalone) growing 44.1% yoy, almost 5% below our estimate. EBITDA margins declined 127bps to 6.7% in FY07, mainly due to lower gross margins. Gross margins were lower on account of:

- Product disruptions due to operational restructuring: Pantaloon hired Mckinsey for an organizational restructure, leading to one-time product overheads and disruptions.
- Shift in product mix towards lower margin electronics and mobile phones, as the company rolled out its consumer electronics business.

Going forward, management expects margins to pick up, recovering from 1QFY08. The restructuring exercise carried out by McKinsey is likely to add about 25-40bps to net margins in FY08E. We estimate EBITDA margin of 7% in FY08E and FY09E, and net margin of 3.1% in FY08E and 2.8% in FY09E.

Figure 1. Pantaloon: 4Q FY07 Profit and Loss Summary (Rupees in Millions, Percent)

	4QFY06	4QFY07	% Change
Net Sales	**5,763.5**	**10,196.4**	**76.9**
Total Expenditure	-5,369.6	-9,628.8	79.3
EBITDA	**393.9**	**567.6**	**44.1**
EBITDA Margin (%)	*6.8*	*5.6*	*-127 bps*
Interest	-107.1	-336.7	214.5
Depreciation	-66.0	-126.1	90.9
Other Income	7.5	0.3	-95.9
PBT	228.3	105.1	-54.0
Tax	-80.2	-95.9	19.6
Tax Rate (%)	*35.1*	*91.3*	*5614 bps*
PAT	**148.1**	**9.2**	**-93.8**
Extraordinary Items	10.2	177.5	
Reported Profit	**158.3**	**186.7**	
No of shares	134.4	146.8	9.2
EPS	1.2	1.3	8.0
Key Costs			
Net Sales	5,763.5	10,196.4	76.9
Raw Materials and Finished Goods	3,750.4	7,208.2	92.2
% of Sales	*65.1*	*70.7*	*8.6*
Staff Costs	442.3	578.9	30.9
% of Sales	*7.7*	*5.7*	*-26.0*
Other Expenditure	1,176.9	1,841.7	56.5
% of Sales	*20.4*	*18.1*	*-11.5*

Source: Company reports

Figure 2. Pantaloon: FY07 Profit and Loss Summary (Rupees in Millions, Percent)

	FY06	FY07	% Change
Net Sales	**18,689.7**	**32,367.3**	**73.2**
Total Expenditure	-17,223.4	-30,211.4	75.4
EBITDA	**1,466.3**	**2,156.0**	**47.0**
EBITDA Margin (%)	*7.8*	*6.7*	*-118 bps*
Interest	-369.2	-897.6	143.1
Depreciation	-208.2	-368.6	77.1
Other Income	19.8	31.5	58.7
PBT	908.8	921.3	1.4
Tax	-277.4	-610.1	120.0
Tax Rate (%)	*30.5*	*66.2*	*117.0*
PAT	**631.4**	**311.2**	**-50.7**
Extraordinary Items	10.2	888.8	8,630.5
Reported Profit	**641.6**	**1,199.9**	**87.0**
No of shares	134.4	146.8	9.2
EPS	4.8	8.2	71.3
Key Costs			
Net Sales	18,689.7	32,367.3	73.2
Raw Materials and Finished Goods	-12,434.3	-22,094.8	77.7
% of Sales	*66.5*	*68.3*	*173 bps*
Staff Costs	-1,120.7	-2,060.9	83.9
% of Sales	*6.0*	*6.4*	*37 bps*
Other Expenditure	-3,668.4	-6,055.7	65.1
% of Sales	*19.6*	*18.7*	*-92 bps*

Source: Company reports

Consolidated results: Look beneath the surface

Pantaloon reported its FY07 consolidated results for the first time. At the outset, consolidated EPS of Rs2.6, against standalone EPS of Rs8.2 appears very low. However, Pantaloon's consolidated results need to be viewed in the context of its ongoing investments in many of its subsidiaries. These house its new businesses, which are currently loss making and are only likely to breakeven over the next 1-2 years. Nevertheless, these subsidiaries are still valuable. Pantaloon has already divested some equity in some of these subsidiaries, and value unlocking in a few more is imminent. We enumerate below the losses/profits for Pantaloon's key subsidiaries in FY07 and expected base valuations for each of these subsidiaries. We do not capture the value of all these into our sum-of-the-parts-based price target, and to that extent there could be positive surprises.

Figure 3. Snapshot of Pantaloon's Key Subsidiaries

Business	Profit/(Loss) in FY07 (Rsm)	Breakeven Schedule	CIR Valuation (Rs/share)	Comment
Home Town	-400	First store rolled out in FY07, likely to break even next year	60	10% stake already divested to private equity, valuing the business close to Rs1bn
Future Bazaar	-170	Losses likely to be lower than Rs100m in FY08E, breakeven expected in FY09E	18	Expected dilution over next 3-months at base valuation of US$70m
Future Media	-60	Likely to break even in FY09E	13	Expected dilution over next 3-months at base valuation of US$50m
Insurance	-50	NA	0	
Footmart	-90	NA	0	
Blue Foods	-50	NA	0	
Future Capital	50	Profitable	95	Likely IPO, as reported in the press, we value this business at Rs18.6bn
Pantaloon Food Products	10	Profitable	0	

Source: Company Reports and CIR estimates

Near Term Stock Triggers

1. Value unlocking in three of Pantaloon's subsidiaries – Future Capital, Future Bazaar and Future Media – is imminent. Future Capital is likely to list in the next three months. We value Future Capital at Rs18.6bn, which we believe is conservative as it does not capture any value for the retail credit business. Additionally, we expect an approximate 10% dilution each in Future Media and Future Bazaar through placements to private equity. We expect base valuation of US$50m (with a five year conversion option) for Future Media and a base valuation of US$70m-US$100m for Future Bazaar.

2. New venture fund: Pantaloon is looking to raise a new domestic fund (Future Ventures, totaling about Rs25bn), which will look at alternative investments including private equity and distressed assets. This fund will be launched through the IPO route (will be permanent capital), with Pantaloon infusing about Rs6.5bn of equity in the fund.

3. Profit booking in Future Capital: We expect Future Capital (Pantaloon's real estate and venture fund subsidiary) to start booking profits aggressively from FY08E onwards. Pantaloon has a 20% share of profits (above 8% hurdle rate).

We maintain our Buy/Medium Risk rating with a price target of Rs626, based on a sum-of-the-parts analysis. We detail our valuation summary below:

Figure 4. Pantaloon: Sum of the Parts Valuation

Business	Valuation Methodology	Per Share Value (Rs)
Pantaloon	30x mid-FY09E P/E, benchmarked off trading multiples of Asian peer group	440
Home Solutions	Valued at Rs10bn, using mid-point of stake sale valuation and 1.2x FY08E market cap / sales valuation	60
Future Capital	Valued at NPV of cash flows to Pantaloon, assuming annual 15% fund NAV improvement and 15% discount rate for already deployed funds and 12% NAV appreciation and 15% discount rate for new funds	95
Future Media	Valued at US$50mn (base valuation) and assume 10% dilution	13
Future Bazaar	Valued at US$70mn and assume 10% dilution	18
Total		**626**

Source: Citigroup Investment Research

Pantaloon

Company description

Pantaloon is the largest organized modern-format retailer in India, with a presence in apparel, general merchandise, home products and food retailing. It has retail space of about 3.5m sq. ft. with plans to expand to 30m sq. ft. by FY11. Pantaloon retails fashion apparel and accessories through its Pantaloon stores, and general merchandise and food through discount department stores Big Bazaar and Food Bazaar. It has presence in retail property management services through Central Malls, managing retail space for concessionaries fees and a share of sales. It has recently launched Home Town for home interiors, which it plans to expand aggressively. Its real estate investment subsidiary, Kshitij Retail Destinations plans to set up 51 malls across India spanning 14.5m sq. feet in the next three years. Pantaloon also has interests in media, logistics, brand management and e-tailing, through subsidiaries.

Investment strategy

We rate Pantaloon Buy/Medium Risk (1M) with a target price of Rs626. In the near term, stock upside triggers should come from stake sales in subsidiaries. We include the Home Solutions, Future Capital, Future Media and Future Bazaar subsidiaries into our valuation. We believe that the risk profile of the business has come down, and that Pantaloon is now better positioned to grow from its current base. While we are cognizant of the emerging competitive landscape, we believe that Pantaloon has sustainable competitive advantages: 1) strong brands and well-established retail formats; 2) judicious product mix; 3) below-market rentals locked in with long-term leases, and 4) longstanding experience in understanding Indian consumer behaviour.

Valuation

Our Rs626 target price is based on sum of the parts. We value parent Pantaloon Retail at Rs440 per share based on 30x mid-FY09E P/E, similar to early-stage valuations for Chinese retailers. Our 30x multiple is also benchmarked against our regional retail universe. We expect a two-year EPS CAGR of 64% for Pantaloon, vs. 30% for our Asian retail universe. We benchmark valuations of Home Solutions against recent stake sales (mid point of Rs7.5bn-Rs10bn). We also use market cap/sales valuation of 1.2x FY08E, at par with Pantaloon's valuations. Our fair value per share for the Home Solutions subsidiary is Rs60 per share. We attribute per share value of Future Capital at Rs95, based on the NPV of cash flows to Pantaloon from the three seven-year close-ended funds (management fee + carry) and new funds that are being raised, which should increase the total assets under management to US$2bn by FY08E. We assume a 15% increase in the fund NAV every year, and a 15% discount rate to calculate NPV of cash flows for the funds already deployed, and a 12% NAV increase and 15% discount rate for new funds. Also, assuming 10% dilution, Future Media is valued at base valuation of US$50mn resulting in Rs13 per share. Future Bazaar is valued at US$70mn and 10% dilution is assumed giving Rs18 per share.

Risks

We assign a Medium Risk rating to Pantaloon Retail based on our quantitative risk-rating system. The main downside risks to our target price include: 1) delays to store opening plans; 2) legislative changes that allow FDI in retail; 3) increase in competitive intensity, irrational competition, and 4) continued pressure on rentals, which could result in lower-than-expected margins. The main upside risks to our target price and estimates include: 1) better-than-expected sales growth; 2) value unlocking in subsidiaries through listing/stake sales, and 3) any significant acquisitions perceived to be creating value.

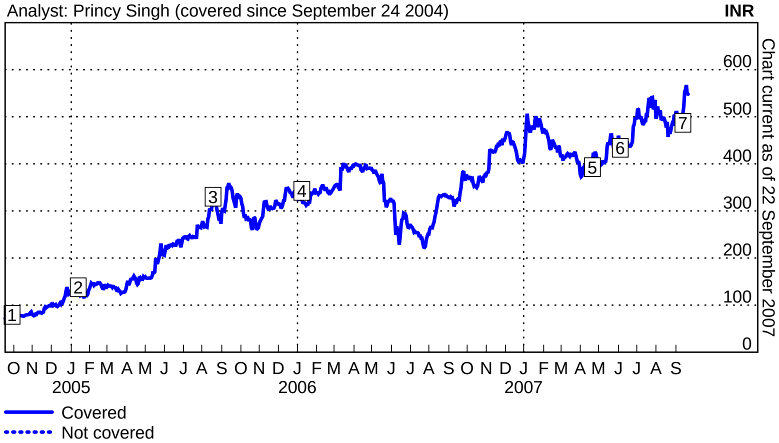
Appendix A-1

Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of this research report hereby certifies that, with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

IMPORTANT DISCLOSURES

Pantaloon (PART.BO)
Ratings and Target Price History - Fundamental Research
Analyst: Princy Singh (covered since September 24 2004)



#	Date	Rating	Target Price	Closing Price
1:	24 Sep 04	1H	98.25	68.94
2:	13 Jan 05	*3H	*121.19	125.88
3:	18 Aug 05	3H	*185.64	330.20
4:	9 Jan 06	3H	*212.00	323.20
5:	20 Apr 07	*1M	*500.00	400.70
6:	5 Jun 07	1M	*545.00	437.90
7:	13 Sep 07	1M	*626.00	507.10

*Indicates change.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Pantaloon.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Pantaloon in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as investment banking client(s): Pantaloon.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, non-securities-related: Pantaloon.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Sales and Trading, and Investment Banking.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research product ("the Product"), please contact Citi Investment Research, 388 Greenwich Street, 29th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Private Client Division clients should refer to www.smithbarney.com/research. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research Ratings Distribution

Data current as of 19 July 2007	**Buy**	**Hold**	**Sell**
Citi Investment Research Global Fundamental Coverage (3320)	47%	39%	14%
% of companies in each rating category that are investment banking clients	71%	70%	70%

Guide to Fundamental Research Investment Ratings:

Citi Investment Research's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

Investment ratings are a function of Citi Investment Research's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Corporate Bond Research Credit Opinions and Investment Ratings:

Citi Investment Research's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIR analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by Citi Investment Research will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of Citi Investment Research's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at http://sd.ny.ssmb.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 27 September 2007 01:11 PM on the issuer's primary market.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the subject company(ies) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

This Product has been modified by the author following a discussion with one or more of the named companies.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Investment Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia to wholesale clients through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992) and to retail clients through Citi Smith Barney Pty Ltd. (ABN 19 009 145 555 and AFSL No. 240813), Participants of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. If the Product was prepared by Citi Investment Research and distributed in Japan by Nikko Citigroup Limited ("NCL"), it is being so distributed under license. If the Product was prepared by NCL and distributed by Nikko Cordial Securities Inc., Citigroup Global Markets Inc., or Monex, Inc. it is being so distributed under license. NCL is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. In the event that an error is found in an NCL research report, a revised version will be posted on Citi Investment Research's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 5574-4860 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Supervisory Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, which is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd., a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 lambton Quay, Wellington. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Papierów Wartosciowych i Gield. Bank Handlowy w Warszawie S.A. ul. Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Taiwan through Citigroup Global Markets Inc. (Taipei Branch), which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 8 Manhattan Building, Hsin Yi Road, Section 5, Taipei 100, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by NASD, NYSE and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Investment Research's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would be illegal. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

This Product is not intended for distribution in Poland. Any receipt or review of the Product in Poland is not authorized by the Firm.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST