



INDIA

WPRO IN Outperform
Price 23 Apr 10 Rs692.95

12-month target	Rs	800.00
Upside/Downside	%	15.4
Valuation	Rs	800.00
- DCF (WACC 12.5%)		
GICS sector	Software & Services	
Market cap	Rsbn	1,017
30-day avg turnover	US\$m	19.7
Market cap	US\$m	22,845
Number shares on issue	m	1,468

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	256.9	274.8	314.4	364.4
EBITDA	bn	50.4	59.6	65.3	74.7
EBITDA growth	%	26.7	18.2	9.6	14.3
Adjusted profit	bn	38.8	45.6	49.7	53.6
EPS adj	Rs	26.54	31.07	33.73	36.31
EPS adj growth	%	19.7	17.1	8.6	7.6
PER adj	x	26.1	22.3	20.5	19.1
ROA	%	16.9	16.7	15.9	15.5
ROE	%	27.7	27.1	23.9	21.2
EV/EBITDA	x	19.4	16.5	15.1	13.2
Net debt/equity	%	-5.6	-19.6	-30.9	-39.1
P/BV	x	6.7	5.5	4.5	3.7

WPRO IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2010
(all figures in INR unless noted)

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Wipro

Margins surprise but guidance muted

Event

- Wipro reported in-line 4Q FY3/10 results. IT services revenues matched our estimates but 60bp QoQ EBIT margin improvement in the segment surprised us positively. On a consolidated basis, revenue was 2% below our estimate but EBITDA matched ours. Net income of Rs12bn was 3% higher than our estimate due to higher forex gains in the quarter. Maintain OP.

Impact

- Deal wins and broad-based recovery – highlight of 4Q results so far:** Common themes in the 4Q results of all IT vendors were: (1) a return of large deals; and (2) revenue growth momentum being driven by all geographical areas and key verticals.
- No fresh wage hikes but promotions add to margin pressure:** Wipro had announced an 8-10% salary hike for selected employees effective February on its last earnings call. The company confirmed this wage hike has been applicable to all its employees (excluding employees who have been with the company for less than a year). Layering in the impact of promotions would hurt margins by ~200bp over and above the 110bp impact we had this quarter due to the wage hike.
- Muted revenue growth forecast...** Wipro's 1Q FY3/11E guidance implies 3% volume growth on the back of the 4% volume growth seen this quarter. This is lower than the 4% volume growth that Infosys has guided for the next quarter after delivering 5.2% QoQ revenue growth in 4Q FY3/10. We think investors would like to see increased confidence in volume growth for the year before turning more positive.
- ...offsets positive sentiment on sequential margin improvement:** The key positive surprise in the quarter was the 60bp QoQ improvement in 4Q. Management attributed this to: (1) revenue growth from successful execution of past M&A, helping margins, notably Infocrossing; (2) increased share of fixed price projects (now 44.3% vs 42.5% in 3Q); and (3) offshore shift (50.6% revenue share vs 49.7% earlier).

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs800.00 based on a PER methodology.
- Catalyst: Pick-up in volume growth and large deal wins.

Action and recommendation

- Retain OP; prefer exposure to TCS and Infosys:** Good 4Q results from the leading trio reinforce our positive investment thesis. We are comfortable with our 25% US\$ revenue growth forecast for Tata Consultancy (TCS IN, Rs779.80, OP, TP: Rs925.00) and Infosys (INFO IN, Rs2,728.10, OP, TP: Rs2,980.00). We expect revenue momentum for Wipro to be back-end loaded in FY3/11. Hence, we prefer TCS and Infosys to Wipro.

4Q FY10 results review and analysis

Fig 1 4Q FY10 results – P&L: YoY growth, QoQ growth

(Amount in Rsm)	Mar-09 4Q FY09	Jun-09 1Q FY10	Sep-09 2Q FY10	Dec-09 3Q FY10	Mar-10 4Q FY10	(% chg YoY)	(% chg QoQ)	Mar-10 4Q FY10	Deviation (%)
Revenues									
Total	65,275	63,868	68,937	69,380	69,772	6.9%	0.6%	71,216	-2.0%
Cost of revenues									
Total	(45,365)	(43,247)	(47,522)	(47,766)	(47,764)	5.3%	0.0%	(49,290)	-3.1%
Gross Profit	19,910	20,621	21,415	21,614	22,008	10.5%	1.8%	21,926	0.4%
Gross Profit Margin (%)	30.5%	32.3%	31.1%	31.2%	31.5%			30.8%	2.5%
Operating Expenses									
Selling and marketing expenses	(4,318)	(4,239)	(4,490)	(4,817)	(5,061)	17.2%	5.1%	(4,872)	3.9%
General and administrative expenses	(3,429)	(3,552)	(3,976)	(3,655)	(3,640)	6.1%	-0.4%	(3,959)	-8.1%
R&D	-	-	-	-	-			-	
Amortization of intangible assets	-	-	-	-	-			-	
Foreign exchange gains/(losses), net	(761)	(1,406)	240	394	57	-107.5%	-85.5%	130	-56.1%
Others, net	-	-	-	-	-			-	
EBITDA	12,326	13,297	15,275	15,521	15,251	23.7%	-1.7%	15,362	-0.7%
EBITDA margin (%)	18.9%	20.8%	22.2%	22.4%	21.9%			21.6%	1.3%
Depreciation and Amortisation included above	(925)	(1,873)	(2,086)	(1,985)	(1,887)	104.0%	-4.9%	(2,136)	-11.7%
Operating income	11,401	11,424	13,189	13,536	13,364	17.2%	-1.3%	13,225	1.1%
Operating margin (%)	17.5%	17.9%	19.1%	19.5%	19.2%			18.6%	3.1%
Other income, net	85	355	681	721	1,612			637	152.9%
Equity in earnings/(losses) of affiliates	35	114	112	128	176	402.9%	37.5%	134	31.0%
Income before income taxes and minority interest	11,521	11,893	13,982	14,385	15,152	31.5%	5.3%	13,997	8.3%
Income taxes	(1,461)	(1,740)	(2,217)	(2,321)	(3,015)	106.4%	29.9%	(2,239)	34.6%
Minority interest	(49)	(49)	(58)	(31)	(46)	-6.1%	48.4%	(33)	41.3%
Net income	10,011	10,104	11,707	12,033	12,091	20.8%	0.5%	11,725	3.1%
Basic EPS	6.88	6.94	8.04	8.25	8.29	20.5%	0.4%	8.04	3.1%
Diluted EPS	6.85	6.89	7.97	8.19	8.22	20.0%	0.4%	7.97	3.1%

Source: Company data, Macquarie Research, April 2010

Fig 2 IT Services 4Q FY10 – EBIT margins surprise

IT Services Segment (Amount in US\$m, unless noted otherwise)	Mar-09 4Q FY09	Jun-09 1Q FY10	Sep-09 2Q FY10	Dec-09 3Q FY10	Mar-10 4Q FY10	(% chg YoY)	(% chg QoQ)	Mar-10 4Q FY10	Deviation (%)
Revenues (US\$)	1,046	1,033	1,065	1,127	1,166	11.5%	3.5%	1,172	-0.5%
Revenues	49,282	48,266	49,981	51,648	52,596	6.7%	1.8%	52,441	0.3%
EBIT	10,270	10,698	11,795	12,181	12,718	23.8%	4.4%	11,852	7.3%
EBIT margin (%)	20.8%	22.2%	23.6%	23.6%	24.2%	16.0%	2.5%	22.6%	7.0%

Source: Company data, Macquarie Research, April 2010

Key financial highlights of the results

- Revenues:** Wipro reported US\$ revenue growth of 3.5% QoQ (vs. 5.2% for INFO and 3% at TCS) in the IT services segment. In INR terms, IT services revenue of Rs52.6bn (up 2% QoQ, 7% YoY) was in line with our expectation.
- EBIT and EBIT margin:** IT services EBIT of Rs12.72bn (up 4% QoQ and up 23% YoY) was 7% higher than our estimate due to better margins. IT services segment margin expanded to 60bp QoQ to 24.2% vs. 23.6% last quarter. This compares with 150bp QoQ margin dip at INFO and 20bp QoQ margin expansion at TCS.
- Guidance:** 1Q FY11 US\$ revenue guidance is 1,190–1,215m, implying 3.1% QoQ growth at the mid-point of the guidance (vs 3.9% QoQ, implied by INFO guidance).
- The company announced a bonus issue of two shares for every three shares held.

Fig 3 4Q FY10 results – operating metrics: YoY growth, QoQ growth

Operating metrics	Mar-09 4Q FY09	Jun-09 1Q FY10	Sep-09 2Q FY10	Dec-09 3Q FY10	Mar-10 4Q FY10	(% chg YoY)	(% chg QoQ)
Employee Metrics							
Total Employees	97,810	98,521	97,891	102,746	108,071	10.5%	5.2%
Net addition	845	711	(630)	4,855	5,325	530.2%	9.7%
Attrition							
Global IT Services - Voluntary	7.9%	8.4%	10.5%	13.4%	17.1%		
Global IT Services - Involuntary	2.6%	1.9%	3.1%	0.9%	0.5%		
India / Middle East IT Services	7.1%	7.4%	8.9%	10.5%	14.9%		
BPO %- Quarterly	13.0%	14.0%	17.0%	15.0%	17.0%		
BPO % - During Training	5.0%	7.0%	7.0%	6.0%	8.0%		
BPO % - Post Training	8.0%	7.0%	10.0%	9.0%	9.0%		
Utilization Rate							
Global IT Services excl IFOX -Gross	68.4%	70.0%	70.8%	73.2%	72.1%		
Global IT Services excl IFOX -Net	75.4%	77.1%	78.2%	80.7%	79.3%		
Global IT Services excl IFOX-Net Excluding Trainees	76.8%	78.2%	80.5%	84.5%	83.0%		
India / Middle East IT Services	81.7%	78.1%	80.6%	77.7%	79.2%		
BPO (Prod FTEs/Total HC)	68.7%	72.7%	73.9%	70.9%	72.5%		
Client Concentration							
Top customer	2.4%	2.6%	2.7%	2.6%	2.5%		
Top 5	10.8%	11.4%	11.3%	10.8%	10.5%		
Top 10	19.7%	20.6%	19.7%	19.5%	19.3%		
Customer size distribution (Trailing 12 months)							
>\$50M	17	17	16	16	16	-5.9%	0.0%
\$20M-\$50M	36	36	35	37	40	11.1%	8.1%
\$10M-\$20M	40	44	48	42	40	0.0%	-4.8%
\$5M-\$10M	60	59	53	61	70	16.7%	14.8%
\$3M-\$5M	67	63	64	77	60	-10.4%	-22.1%
\$1M-\$3M	207	194	187	165	180	-13.0%	9.1%
Total > \$1M	427	413	403	398	406	-4.9%	2.0%
Total Number of active customers	863	830	840	822	845	-2.1%	2.8%
Pricing Movement							
Price Realization							
Onsite	11,632	11,787	12,340	12,299	12,254	5.3%	-0.4%
Offshore	4,405	4,302	4,450	4,345	4,352	-1.2%	0.2%
Volume Movement							
Person months available							
Onsite	36,102	34,607	34,070	35,505	36,206	0.3%	2.0%
Offshore	123,833	126,628	122,581	123,458	132,063	6.6%	7.0%
Support	16,467	16,390	16,216	16,309	16,863	2.4%	3.4%
Total	176,402	177,625	172,867	175,242	185,132	4.9%	5.6%
Person months billed							
Onsite	34,296	32,876	32,367	33,730	34,396	0.3%	2.0%
Offshore	86,277	91,454	90,093	94,487	99,067	14.8%	4.8%
Total	120,573	124,330	122,460	128,217	133,463	10.7%	4.1%

Source: Company data, Macquarie Research, April 2010

Key operating details:

- **Employee additions:** Net employee addition of 5,325 employees in the quarter, vs 3,914 net adds at INFO and 10,775 net adds at TCS.
- **Volume growth** in the quarter was 4.1% QoQ (vs 5.2% for INFO and 4% for TCS).
- **Pricing** in 4Q remained almost flat QoQ (down 0.4% for Onsite and up 0.2% for offshore). This compares with 0.2% pricing improvement for INFO and flat pricing for TCS.
- Best traction seen in the troubled verticals of **telecoms and technology**. Strength also seen in the life sciences vertical.
- On reported revenues, **infrastructure management** posted revenue growth of 4% QoQ.

Fig 4 Valuation comp sheet – Indian IT services

Company name	Bloomberg Ticker	Reco	Market Cap (US\$ m)	Current Price (lcy)	Target Price (lcy)	Up/Down side(%)	EPS FY10	EPS FY11	EPS FY12	PER (x) FY10	PER (x) FY11	RoE (FY10)	EPS CAGR (FY10-12E)
Large Cap - Indian IT Services													
Infosys	INFO IN	OP	34,017	2727	2980	9%	108.5	117.1	134.1	25.1	23.3	30.6	11.2%
TCS	TCS IN	OP	33,196	780	925	19%	35.1	37.0	42.1	22.2	21.1	37.6	9.5%
Wipro	WPRO IN	OP	22,084	692	800	16%	31.3	33.7	36.3	22.3	20.5	26.5	8.1%
HCL Tech	HCLT IN	OP	5,703	388	435	12%	18.2	24.4	28.9	21.3	15.9	20.3	26.1%
Oracle Financial Services	OFSS IN	NR	4,031	2211	NR	NR	101.0	119.3	121.2	21.9	18.5	23.4	9.5%
Mahindra Satyam	SCS IN	NR	2,368	93	NR	NR	10.6	4.4	8.5	8.7	21.0	26.0	-10.5%
Tech Mahindra	TECHM IN	NR	2,191	824	NR	NR	51.7	62.3	71.6	15.9	13.2	63.4	17.7%
Mphasis	MPLH IN	NR	3,007	659	NR	NR	49.0	52.5	57.8	13.5	12.6	51.9	8.7%
Accenture	ACN US	NR	31,885	44	NR	NR	2.6	3.0	3.4	16.6	14.6	58.6	13.0%
Amdocs	DOX US	NR	6,552	32	NR	NR	2.2	2.4	2.6	14.3	13.4	10.8	7.3%
Cap Gemini	CAP FP	NR	6,089	39	NR	NR	1.8	2.5	2.9	22.0	16.0	4.4	27.6%
Cognizant	CTSH US	NR	16,095	54	NR	NR	2.1	2.4	2.8	25.3	22.8	23.2	13.7%
Convergys	CVG US	NR	1,649	13	NR	NR	1.1	1.2	1.3	12.4	11.0	-6.6	8.0%
CSC	CSC US	NR	8,441	55	NR	NR	5.0	5.2	5.6	11.0	10.5	20.3	5.3%
Logica PLC	LOG LN	NR	2,344	146	NR	NR	0.1	0.1	0.1	1220.0	1117.6	2.0	10.3%
Paxys	PAX PM	NR	2,412	2	NR	NR	na	na	na	na	na	na	na
IBM GS	IBM US	NR	167,442	129	NR	NR	11.3	12.3	13.2	11.4	10.5	74.4	8.1%
Aptech	APTR IN	NR	171	169	NR	NR	na	na	na	na	na	21.7	na
Educomp	EDSL IN	NR	1,470	711	NR	NR	29.0	37.1	46.5	24.6	19.1	37.9	26.7%
Everonn	ESIL IN	NR	127	386	NR	NR	26.1	35.8	52.1	14.8	10.8	14.3	41.3%
Hexaware	HEXW IN	NR	247	79	NR	NR	9.3	8.1	9.7	8.4	9.7	17.7	1.9%
Mindtree	MTCL IN	NR	553	641	NR	NR	50.2	51.1	58.0	12.8	12.5	9.6	7.5%
NIIT	NIIT IN	NR	236	66	NR	NR	na	na	na	na	na	na	na
NIIT Tech	NITEC IN	NR	227	178	NR	NR	23.5	24.4	28.3	7.6	7.3	27.7	9.8%
Patni	PATNI IN	NR	1,587	564	NR	NR	40.2	42.1	44.2	14.0	13.4	15.7	4.9%
Polaris	POL IN	NR	399	186	NR	NR	20.5	22.2	24.2	9.1	8.4	13.5	8.6%
Rolta	RLTA IN	NR	652	186	NR	NR	na	na	na	na	na	na	na
EXL Service	EXLS US	NR	493	17	NR	NR	0.7	0.8	1.0	25.5	21.5	8.3	-26.8%
Firstsource	FSOL IN	NR	287	31	NR	NR	2.4	3.2	na	12.7	9.6	2.9	na
Genpact	G US	NR	3,916	18	NR	NR	0.8	0.9	0.9	22.0	19.1	12.5	-42.5%
WNS	WNS US	NR	544	13	NR	NR	1.2	1.3	1.5	11.2	9.6	3.9	-34.7%

Note: Share price data as of 23 April 2010. Data for Not rated companies are based on Bloomberg consensus estimates. Fiscal year end June for HCLT.

Source: Bloomberg, Macquarie Research, April 2010

Wipro (WPRO IN, Outperform, Target Price: Rs800.00)

Quarterly Results					Profit & Loss						
		3Q/10A	4Q/10E	1Q/11E	2Q/11E		2009A	2010E	2011E	2012E	
Revenue	m	69,380	72,632	74,308	76,498	Revenue	m	256,892	274,817	314,396	364,359
Gross Profit	m	21,614	22,082	22,510	22,505	Gross Profit	m	76,711	85,732	92,013	107,943
Cost of Goods Sold	m	47,766	50,550	51,798	53,992	Cost of Goods Sold	m	180,180	189,085	222,383	256,416
EBITDA	m	15,521	15,480	15,697	16,007	EBITDA	m	50,394	59,573	65,288	74,654
Depreciation	m	1,985	2,179	2,229	2,295	Depreciation	m	6,948	8,123	9,432	10,931
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	13,536	13,301	13,468	13,712	EBIT	m	43,446	51,450	55,856	63,724
Net Interest Income	m	721	637	708	785	Net Interest Income	m	1,086	2,394	3,295	4,348
Associates	m	128	134	141	144	Associates	m	362	488	595	702
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0	Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	m	14,385	14,073	14,317	14,641	Pre-Tax Profit	m	44,894	54,333	59,746	68,774
Tax Expense	m	-2,321	-2,252	-2,362	-2,460	Tax Expense	m	-6,035	-8,530	-10,056	-15,130
Net Profit	m	12,064	11,821	11,955	12,181	Net Profit	m	38,859	45,803	49,690	53,644
Minority Interests	m	-31	-33	0	0	Minority Interests	m	-99	-171	0	0
Reported Earnings	m	12,033	11,789	11,955	12,181	Reported Earnings	m	38,760	45,633	49,690	53,644
Adjusted Earnings	m	12,033	11,789	11,955	12,181	Adjusted Earnings	m	38,760	45,633	49,690	53,644
EPS (rep)		8.19	8.02	8.12	8.27	EPS (rep)		26.54	31.07	33.73	36.31
EPS (adj)		8.19	8.02	8.12	8.27	EPS (adj)		26.54	31.07	33.73	36.31
EPS Growth yoy (adj)	%	18.2	17.0	17.9	3.8	EPS Growth (adj)	%	19.7	17.1	8.6	7.6
						PE (rep)	x	9.2	22.7	20.8	19.4
						PE (adj)	x	9.2	22.7	20.8	19.4
EBITDA Margin	%	22.4	21.3	21.1	20.9	Total DPS		0.04	0.06	0.06	0.07
EBIT Margin	%	19.5	18.3	18.1	17.9	Total Div Yield	%	0.0	0.0	0.0	0.0
Earnings Split	%	26.4	25.8	24.1	24.5	Weighted Average Shares	m	1,461	1,468	1,473	1,477
Revenue Growth	%	5.3	11.3	16.3	11.0	Period End Shares	m	1,461	1,470	1,475	1,479
EBIT Growth	%	21.7	16.7	17.9	4.0						
Profit and Loss Ratios					Cashflow Analysis						
		2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E	
Revenue Growth	%	30.1	7.0	14.4	15.9	EBITDA	m	50,394	59,573	65,288	74,654
EBITDA Growth	%	26.7	18.2	9.6	14.3	Tax Paid	m	0	0	0	0
EBIT Growth	%	28.9	18.4	8.6	14.1	Chgs in Working Cap	m	1,122	1,709	-2,295	-2,302
Gross Profit Margin	%	29.9	31.2	29.3	29.6	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	19.6	21.7	20.8	20.5	Other	m	-7,553	4,710	3,296	4,349
EBIT Margin	%	16.9	18.7	17.8	17.5	Operating Cashflow	m	43,963	65,993	66,289	76,701
Net Profit Margin	%	15.1	16.7	15.8	14.7	Acquisitions	m	-1,030	-23,079	0	0
Payout Ratio	%	0.2	0.2	0.2	0.2	Capex	m	-16,746	-11,203	-15,720	-18,218
EV/EBITDA	x	6.5	16.9	15.3	13.4	Asset Sales	m	358	208	0	0
EV/EBIT	x	7.6	19.5	17.9	15.7	Other	m	-6,765	-5,568	0	0
Balance Sheet Ratios						Investing Cashflow	m	-24,183	-39,642	-15,720	-18,218
ROE	%	27.7	27.1	23.9	21.2	Dividend (Ordinary)	m	-6,829	-13,679	-6,856	-6,856
ROA	%	16.9	16.7	15.9	15.5	Equity Raised	m	78	73	0	0
ROIC	%	31.3	30.6	30.9	31.3	Debt Movements	m	-460	43,103	0	0
Net Debt/Equity	%	-5.6	-19.6	-30.9	-39.1	Other	m	3,952	-46,211	0	0
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	m	-3,259	-16,714	-6,856	-6,856
Price/Book	x	2.4	5.6	4.5	3.8	Net Chg in Cash/Debt	m	17,184	9,017	43,713	51,627
Book Value per Share		102.8	126.7	155.4	186.6	Free Cashflow	m	27,217	54,789	50,569	58,483
					Balance Sheet						
		2009A	2010E	2011E	2012E		2009A	2010E	2011E	2012E	
						Cash	m	65,297	94,464	128,716	165,915
						Receivables	m	60,060	69,533	80,149	91,766
						Inventories	m	8,686	8,249	9,509	10,887
						Investments	m	338	0	0	0
						Fixed Assets	m	49,862	51,923	58,211	65,498
						Intangibles	m	49,502	54,254	54,254	54,254
						Other Assets	m	56,803	46,240	49,170	52,377
						Total Assets	m	290,548	324,664	380,009	440,697
						Payables	m	18,017	47,272	54,840	63,305
						Short Term Debt	m	37,211	35,849	35,849	35,849
						Long Term Debt	m	19,595	21,986	21,986	21,986
						Provisions	m	0	0	0	0
						Other Liabilities	m	65,308	32,789	37,731	43,166
						Total Liabilities	m	140,131	137,896	150,406	164,306
						Shareholders' Funds	m	150,182	186,355	229,190	275,978
						Minority Interests	m	235	413	413	413
						Other	m	0	0	0	0
						Total S/H Equity	m	150,417	186,768	229,603	276,391
						Total Liab & S/H Funds	m	290,548	324,664	380,009	440,697

All figures in INR unless noted.

Source: Company data, Macquarie Research, April 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2009

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.94%	60.52%	37.50%	43.42%	65.26%	41.60%	(for US coverage by MCUSA, 3.76% of stocks covered are investment banking clients)
Neutral	35.58%	18.70%	53.13%	49.06%	29.11%	36.80%	(for US coverage by MCUSA, 4.51% of stocks covered are investment banking clients)
Underperform	16.48%	20.79%	9.38%	7.52%	5.63%	21.60%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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