

August 12, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs91	Rs155
EPS change FY12E/13E (%)	18/3
Target Price change (%)	1
Nifty	5,138
Sensex	17,059

Price Performance

(%)	1M	3M	6M	12M
Absolute	(21)	(22)	(19)	(41)
Rel. to Nifty	(15)	(15)	(18)	(38)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Power
Bloomberg	RPWR@IN
Equity Capital (Rs mn)	28051
Face Value(Rs)	10
No of shares o/s (mn)	2805
52 Week H/L	191/89
Market Cap (Rs bn/USD mn)	256/5,646
Daily Avg Volume (No of sh)	1214314
Daily Avg Turnover (US\$m)	3.0

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	80.4	80.4	80.4
FII/NRI	5.1	4.9	5.0
Institutions	1.7	1.7	1.8
Private Corp	1.9	2.0	1.7
Public	10.8	10.9	11.1

Source: Capitaline

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- PAT of Rs1.97bn beat est. due to better PAF/PLF (94/91%) at Rosa (Rosa PAT Rs1.1bn vs Rs60mn yoy). Excellent operating performance - increase FY12E/13E earnings by 18%/3%
- Building solidity - (1) huge cheap captive coal, (2) merchant capacity in captive coal plants only, (3) plants near load centers (PoC), (4) minimizing cost of capital & (5) low to reasonable tariffs - offtake and payment risk minimized
- Significant progress achieved. Mid-term triggers - 1) COD of 4,260MW by Dec12 (incl 1 unit of Sasan), 2) coal production in Sasan - Jun12, 3) milestones in Tilaiya & Indonesian mines & 4) gas plant and gas supplies
- Solidity and positive triggers ignored with valuations implying LT merchant rate of Rs1.3/unit, very safe. We foresee RPL as the most sustainable private utility; Maintain Buy

Excellent operational performance - increase FY12E/13E earnings

1Q12 PAT of Rs1.97bn was ahead of our estimate due to (1) higher plant load factor (PLF - 91%) and plant availability factor (PAF - 94%) in Rosa I. Rosa I PAT stood at Rs1.1bn vs. Rs60mn yoy. For the same reason - revenues of Rs5.4bn were higher than our estimate of Rs5.2bn. Rosa I (regulated plant) earned effective ROE of 17% in FY11 despite running at low PAF till Q311. But driven by current parameters, we expect Rosa to earn 30%+ ROE in FY12. But we note that part of the reported ROE for Rosa is helped by depreciation charge at 3.8% and recovery at 5.3%. We factor in better operational performance in our numbers and increase our FY12E/13E earnings by 18%/3% to Rs2.6 and Rs5.9/share respectively.

Krishnapatnam project issues unlikely to have a significant impact

Fuel cost escalation issues (due to Indonesian regulations) at Krishnapatnam project is unlikely to have a significant impact on Reliance power. There could be three outcomes (1) revision in fuel escalation rates - neutralizing the impact of Indonesian regulations, (2) No revision and Reliance power continues to supply at current agreed tariffs - NPV impact of -9% and (3) Reliance power decides to forego the performance guarantee (Rs5bn), shelves the Krishnapatnam plant and sells the Indonesian coal - significant upside from coal sale. Currently Krishnapatnam project is contributing negative Rs4/share to the NPV, we believe any of the outcomes are not likely to have significant negative impact rather; it would have a positive impact.

Financial Snapshot

								Rs Mn		
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	207	-1,073	-518.4	6,840	2.9	179.8	4.8	42.0	-213.9	2.0
FY11E	10,548	2,547	24.1	7,605	2.7	-4.7	4.9	44.1	137.7	2.0
FY12E	26,933	10,282	38.2	6,099	2.2	-19.8	3.6	55.0	51.1	1.9
FY13E	84,882	40,350	47.5	17,718	5.7	162.0	8.6	21.0	18.0	1.6

Low tariff bids still seems overhang, but was it foundation of solidity

Reliance power's aggressive bidding for Sasan and Tilaiya (Rs1.19/unit and Rs1.77/unit) is still sort of overhang on the stock even after four years but.....was it the foundation of building a solid utility? If one looks at the large pit head captive mines (65mn MT peak production potential) with cheap coal and an option to use the coal in other plants (both these plants put together to need max 30mn MT), we bet Indian utilities in current scenario will die for these deals. Especially when one can produce power at as low as Rs1.1-Rs1.4/unit. And as it is tariff structuring makes it more attractive. Against bid tariff of Rs1.19/unit, Sasan's effective tariff is Rs1.34/unit.

.....Huge pithead captive mines; 1st mine slated to produce by Jul12

Lets look at mines; in Sasan mines - (1) clearances in place (except only 5mn MT in no go), (2) first two shovels reached, (3) OB removal started and (4) production exp by Jul12 (before UMPP) - peak production of 25mn MT by FY15E - in line with COD of Sasan I (Dec12-Mar14), Sasan II and Chitrangi (Sep13-Mar15). Tilaiya mine (Kerandari B&C) to start production by Sep13 and peak production of 40mn MT by 2016 - ahead of/ in line with scheduled COD of Tilaiya I (May 15-Nov 16) , Sasan II and Chitrangi (Sep13 - Mar15). Indonesian mines are expected to start production in FY13 and peak production capacity is expected at 30mn MT.

.....With very competitive fuel cost

Now, look at the quality of the coal from these mines - Sasan, 4600Kcal with cash cost of production at Rs300/MT. We say take this at Rs400/MT, still fuel cost per unit of Rs0.35/unit. Tilaiya, 4250Kcal with cash cost of production at Rs400/MT. We say take this at Rs600/MT, still fuel cost per unit of Rs0.42/unit.

Private utility with long-term strategy in place - no captive coal, no merchant power (one example)

One common factor in most of the private utilities currently is no strategy in place and they are all over the place - desperate for linkages, cost plus plants, coal mines, case I bids, funding. Thankfully, not desperate for power plants now, as they have plenty of their own coming up. All this is the result of entering in the sector without any clear cut strategy. Most of them have merchant power /Case I capacities based on linkages and imported coal - might prove to be very costly.

In between all this when one looks at RPL planning merchant capacities in captive coal plants only (except small capacity in Butibori - which also it is looking to tie up) - one has to believe that a solid utility model is in the making.

With average supplies at Rs2.32/unit for a large capacity of 20,000MW; can SEBs ever afford to default/delay/dispute with RPL?

Few years from now, Reliance power would be supplying 19,200MW of power (excl Samalkot and Butibori) at 2.32/unit (average) to almost all the SEBs in the country. Unless, one assumes that a particular state electricity board might stop the supply of power to its consumers (not possible), it's very unlikely that these SEBs would be delaying/defaulting/disputing on payments/contract with Reliance power. This leads us to believe that offtake/ payment and contract dispute risks are much lower in RPL.

Winning of UPPCL's Case I bid - a huge positive

In its Case I LOI from UPPCL at Rs3.7/unit, the transmission charge is not more than Rs0.10/unit. It's because the Chitrangi plant is on the border of MP and UP. This might have been one of the reasons for it winning this bid (under new method of transmission charges, PoC, plants near load centers to benefit). Looking at a scenario where supply of case I bids in the market might dry up and prices also might come down - Reliance power's winning UPPCL bid at Rs3.7/unit is a huge positive.

Significant progress made in execution; mid-term positive triggers lined up

We believe Reliance power has made significant progress in its projects – be it coal mines or power plants. We highlight mid-term positive triggers lined up - (1) 4,260MW of Capacity Additions by Dec12 - RPL is ahead of schedule/ on schedule in terms of execution in its Rosa II, Butibori, Samalkot and Sasan Power projects. It is likely to commission 4,260MW (Sasan 660MW, Samalkot 2400MW, Rosa II 600MW and Butibori 600MW) by Dec12 with growth visibility beyond as well, (2) start of production in its Sasan mines in July12, (3) milestones for Tilaiya and Indonesian coal mines and (4) Gas plant commissioning and gas allocation.

We take note of RPL capacities being slightly back-ended; but who has made a killing, except JSPL, by being early entrant

We take note of this fact that Reliance power's current capacity is only 600MW when many other private players have commissioned 2000-3000MWs already. Despite huge commissioning, we fail to find utilities which have made a killing taking advantage of early merchant window except JSPL.

Solidity, mid-term triggers and progress made being ignored, Upgrade to Buy

Solidity, positive triggers and progress made is being ignored with valuations implying LT merchant rate of Rs 1.3/unit, very safe. We foresee RPL as the most sustainable private utility; upgrade to buy with revised DCF based price target of Rs155/Share (Rs153/Share earlier). Given better operational performance in Rosa I, we increase our FY12E/13E earnings by 18%/3% to Rs2.6/share & Rs5.9/share. At CMP of Rs91/Share, RPL is trading at 1.2x FY13E Book value. Key risks - (1) restriction on captive coal use, (2) taxes, cess or profit sharing for coal mines, (3) negative news on gas supplies and (4) any delay/issues in its Chitrangi project.

Annexure

Company wide coal requirement and availability

(MTPA)	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Fuel Requirement								
Imported Coal	0.0	0.0	0.0	0.0	2.2	11.6	16.6	16.6
Domestic Coal	0.1	1.7	3.0	7.7	16.1	33.7	49.7	60.0
Total Requirement	0.1	1.7	3.0	7.7	18.3	45.3	66.3	76.6
Fuel Availability								
Imported Coal	0	0	0	0	2.2	11.6	16.6	16.6
Domestic Coal*	0.1	1.7	3.0	6.7	14.9	33.7	49.7	60.0
Total Availability	0.1	1.7	3.0	6.7	17.1	45.3	66.3	76.6
Net Shortfall	0.0	0.0	0.0	1.0	1.2	0.0	0.0	0.0
% Shortfall	0%	0%	0%	13%	7%	0%	0%	0%

Source: Company, Emkay Research * we have assumed linkage coal as available

Company wide gas requirement and availability

(mmscmd)	FY10	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
Total Requirement	0.0	1.2	2.3	10.0	11.0	11.0	11.0	11.0
Total Availability	0.0	1.2	1.8	1.8	1.8	1.8	1.8	1.8
Net Shortfall	0.00	0.00	0.52	8.21	9.18	9.19	9.20	9.22
% Shortfall	0%	0%	22%	82%	84%	84%	84%	84%

Source: Company, Emkay Research

Generation (MUs)	Q111	Q211	Q311	Q411	Q112
Rosa	485	545	714	1129	1185

Project	Capacity	Month	Milestones achieved	Expected CoD of 1st unit/Start of Production
Power Projects				
Rosa II	600 MW	Feb-10	Started boiler structure erection work	Dec-11
		Jul-10	Lifted boiler drum	
		Dec-10	Started condenser erection	
		Feb-11	Boiler hydro test completed	
		Aug-11	Boiler light up and TG box up	
Butibori	600 MW	Sep-10	Boiler structure erection started	Mar-12
		Feb-11	TG Deck Casting, Boiler drum lift	
		Mar-11	Started condenser erection	
		Aug-11	TG erection start	
Samalkot	2400 MW	Jan-11	Started civil work	Jan-12
		Apr-11	Started GTG PHB erection work	
		Jul-11	Started GTG erection work (two turbines completed)	
Sasan	3960 MW	Aug-09	Started main plant civil work	Dec-12
		Jul-10	Started boiler erection	
		Dec-10	Started TG structural erection	
		May-11	Started erection of pressure parts	
		Sep-11	Condenser erection Start	
Chitarangi	3960 MW		Land under possession, water allocation received, environmental clearance obtained, tied up off take for 2640 MW with UP and 1320MW with MP, LTOA application submitted, Main Plant civil work ready to commence	Dec-13
Sasan II	1980 MW		Land under possession, environmental clearance obtained, LTOA application submitted	Dec-13
Krishnapatnam	3960 MW		97% land possession, PPA signed, debt tied up, 50% of piling done, Application to central government for renegotiation in tariff	Sep-13
Tilaiya	3960 MW		Land possession under progress, EPC contract tied up with R-Infra, debt tie up under progress	May-15
Coal Mines				
Sasan	25 MTPA		First 2 (out of 5) Shovels arrived at site, OB removal already started,	Jul-12
Tilaiya	40 MTPA		Mine plan approved, drilling in progress and land identified for R&R, ToR approved for environmental clearance	2014
Indonesia	30 MTPA		Environmental clearances obtained, JORC report likely in Sep11	FY13

Quarterly Results

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	FY10	FY11	YoY (%)
Revenue	1,393	1,687	2,512	4,955	5,418		97.2	207	10,548	4995.5
Expenditure	-1,302	-1,405	-1,895	-3,399	-3,568	532.2	79.4	-1,280	-8,001	525.1
<i>as % of sales</i>	<i>-93.4%</i>	<i>-83.3%</i>	<i>-75.4%</i>	<i>-68.6%</i>	<i>-65.9%</i>			<i>-618.4%</i>	<i>-75.9%</i>	
Consumption of RM	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>			<i>0.0%</i>	<i>0.0%</i>	
Power and Fuel	-736	-997	-1,242	-3,357	-3,082		35.5	-221	-6,332	-77.8
<i>as % of sales</i>	<i>-52.8%</i>	<i>-59.1%</i>	<i>-49.5%</i>	<i>-67.7%</i>	<i>-56.9%</i>			<i>-106.8%</i>	<i>-60.0%</i>	
Other Mfg Expenses	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Employee Cost	-161	-153	-196	-259	-172	67.5	31.8	-433	-769	77.5
<i>as % of sales</i>	<i>-11.5%</i>	<i>-9.1%</i>	<i>-7.8%</i>	<i>-5.2%</i>	<i>-3.2%</i>			<i>-209.3%</i>	<i>-7.3%</i>	
Other expenditure	-405	-254	-457	216	-314	-528.7	-147.3	-160	-900	462.9
<i>as % of sales</i>	<i>-29.1%</i>	<i>-15.1%</i>	<i>-18.2%</i>	<i>4.4%</i>	<i>-5.8%</i>			<i>-77.2%</i>	<i>-8.5%</i>	
EBITDA	92	282	617	1,556	1,850	-389.3	152.1	-1,073	2,547	-337.3
Depreciation	-238	-375	-77	-319	-286	497.3	311.8	-57	-1,009	1666.7
EBIT	-146	-93	540	1,237	1,564	-309.2	129.2	-1,130	1,538	-236.1
Other Income	2874	3437	1038	1028	1474	24.5	-1.0	8,227	8,377	1.8
Interest	-290	-499	-685	-721	-761	927.3	5.2	-70	-2,195	3026.8
PBT	2,439	2,845	893	1,543	2,277	839.2	72.9	7,027	7,720	9.9
Total Tax	-485	-497	-106	322	-316	-57.6	-404.2	-187	-766	309.3
Adjusted PAT	1954	2348	787	1866	1961	101.9	137.1	6840	6954	1.7
Extra ordinary items	0	0	650	0	0			0	650	
Reported PAT	1954	2348	1437	1866	1961	101.9	29.9	6840	7604	11.2
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		-100.0	0	0	
PAT after MI	1954	2348	1437	1866	1961	101.9	29.9	6840	7604	11.2
Reported EPS	0.7	0.8	0.3	0.7	0.7	101.9	137.1	2.4	2.7	11.2

Margins (%)						(bps)	(bps)		(bps)	
EBIDTA	6.6	16.7	24.6	31.4	34.1		684	-518.4	24.1	54250
EBIT	-10.5	-5.5	21.5	25.0	28.9		348	-545.9	14.6	56052
EBT	175.0	168.7	61.4	31.1	42.0		-3026	3,394.5	73.2	-332135
PAT	140.2	139.2	31.3	37.7	36.2		634	3,304.2	72.1	-323206
Effective Tax rate	19.9	17.5	6.9	-20.9	13.9	44149	-2776	2.7	9.9	726

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	207	10,548	28,257	85,653
Growth (%)		4,995.5	167.9	203.1
Expenditure	1,280	8,000	16,664	44,539
Fuel Cost	221	5,596	15,238	39,933
O&M Cost	1,059	2,404	1,427	4,607
SG&A Expenses	0	0	0	0
Other Expenses	0	0	0	0
EBITDA	-1,073	2,547	11,593	41,113
Growth (%)			355.1	254.6
EBITDA margin (%)	-518.4	24.1	41.0	48.0
Depreciation	57	1,009	2,547	8,453
EBIT	-1,130	1,538	9,046	32,660
EBIT margin (%)	-545.9	14.6	32.0	38.1
Other Income	8,227	8,377	3,549	2,135
Interest expenses	70	2,195	3,015	11,597
PBT	7,027	7,720	9,580	23,198
Tax	187	116	2,413	4,939
Effective tax rate (%)	2.7	1.5	25.2	21.3
Adjusted PAT	6,840	7,605	7,167	18,260
Growth (%)	179.8	11.2	-5.8	154.8
Net Margin (%)	3304.3	72.1	25.4	21.3
E/O items	0	0	0	0
Reported PAT	6,840	7,605	7,167	18,260
(Profit)/loss from JV's/Ass/MI	0	0	0	0
PAT after MI	6,840	7,605	7,167	18,260
Growth (%)	179.8	11.2	-5.8	154.8

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	-1,200	-657	6,031	21,063
Depreciation	57	1,009	2,547	8,453
Interest Provided	70	2,195	3,015	11,597
Other Non-Cash items	0	0	0	0
Chg in working cap	2,787	-7,450	-3,272	-10,360
Tax paid	-13	-544	-2,413	-4,939
Operating Cashflow	1,701	-5,447	5,908	25,814
Capital expenditure	-41,833	-87,849	-180,386	-227,890
Free Cash Flow	-40,132	-93,296	-174,478	-202,076
Other income	8,227	18,367	3,549	2,135
Investments	0	0	0	0
Investing Cashflow	-33,606	-69,482	-176,837	-225,755
Equity Capital Raised	-1	4,000	0	43,035
Loans Taken / (Repaid)	9,081	56,673	134,597	172,262
Interest Paid	-70	-2,195	-3,015	-11,597
Dividend paid (incl tax)	0	0	0	0
Income from investments				
Others	-3	0	0	240
Financing Cashflow	9,007	58,477	131,582	203,939
Net chg in cash	-22,898	-16,451	-39,347	3,999
Opening cash position	103,388	80,490	64,038	24,691
Closing cash position	80,490	64,039	24,691	28,690

Note – we have assumed equity dilution in FY13E

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	23,968	27,968	27,968	30,709
Reserves & surplus	120,660	138,253	145,421	204,214
Net worth	144,628	166,221	173,389	234,923
Secured Loans	22,406	79,079	213,675	385,937
Unsecured Loans	0	0	0	0
Loan Funds	22,406	79,079	213,675	385,937
Net deferred tax liability	0	0	0	0
Total Liabilities	167,034	245,300	387,064	620,860
Gross Block	23,571	54,521	90,771	236,854
Less: Depreciation	-164	-1,173	-3,721	-12,173
Net block	23,407	53,348	87,050	224,681
Capital work in progress	68,028	124,928	269,064	350,871
Investment	0	0	0	0
Current Assets	82,528	74,402	39,112	55,497
Inventories	486	1,158	2,336	5,374
Sundry debtors	288	1,942	4,821	14,169
Cash & bank balance	80,490	64,038	24,691	28,690
Loans & advances	1,232	7,232	7,232	7,232
Other current assets	32	32	32	32
Current lia & Prov	6,929	7,377	8,162	10,187
Current liabilities	6,501	7,377	8,162	10,187
Provisions	428	0	0	0
Net current assets	75,599	67,025	30,950	45,309
Misc. exp	0	0	0	0
Total Assets	167,034	245,301	387,065	620,861

Key ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	-518.4	24.1	41.0	48.0
Net Margin	3304.3	72.1	25.4	21.3
ROCE	-0.7	0.7	2.9	6.5
ROE	4.8	4.9	4.2	8.9
RoIC	-1.6	1.1	2.5	5.4
Per Share Data (Rs)				
EPS	2.9	2.7	2.6	5.9
CEPS	2.9	3.1	3.5	8.7
BVPS	60.3	59.4	62.0	76.5
DPS				
Valuations (x)				
PER	31.5	33.1	35.1	15.1
P/CEPS	31.3	29.2	25.9	10.3
P/BV	1.5	1.5	1.5	1.2
EV / Sales	761.5	25.3	15.6	7.4
EV / EBITDA	-146.9	104.7	38.0	15.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.1	1.1	1.5
Net Debt/EBIDTA	-19.6	5.9	16.3	8.7
Working Cap Cycle (days)	-169	39	27	44

Recommendation History: Reliance Power – RPWR IN

Date	Reports			
02/06/2011	Reliance Power Q4FY11 Result Update	Buy	120	153
19/04/2011	Reliance Power Management Meet Update	Accumulate	128	157
16/02/2011	Reliance Power Q3FY11 Result Update	Accumulate	122	157
25/01/2011	Power Sector Report; Too many ends to tie			

Recent Research Reports

Date	Reports	Reco	CMP	Target
11/08/2011	GIPCL Q1FY12 Result Update	Buy	81	118
09/08/2011	Adani Power Q1FY12 Result Update	Reduce	91	82
02/08/2011	NTPC Analyst Meet Update	Buy	177	204
29/07/2011	TRIL Q1FY12 Result Update	Buy	253	352

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