Monday, 03 February 2014

# Asian Daily (Asia Edition)

CREDIT SUISSE

## EPS, TP and Rating changes

| | EPS | | TP | | |
|---|---|---|---|---|---|
| (% change) | T+1 | T+2 | Chg | Up/Dn | Rating |
| **Navitas Ltd** | (2) | 6 | 8 | 12 | O (O) |
| **Treasury Wine** | (22) | (21) | (16) | (13) | U (U) |
| **Adani Enterprises Ltd.** | (21) | (1) | (1) | (18) | U (U) |
| **Bank of India** | (9) | (13) | (26) | (13) | U (N) |
| **Grasim** | (16) | (28) | (10) | 14 | O (O) |
| **Hero Motocorp Ltd** | (4) | (3) | 2 | (3) | U (U) |
| **Indian Overseas Bank** | (6) | (38) | (44) | (18) | U (U) |
| **IDFC** | 3 | (8) | (11) | 37 | O (O) |
| **Marico Ltd** | 2 | (4) | 0 | 14 | O (O) |
| **Petronet LNG Limited** | (22) | (15) | (11) | 7 | N (N) |
| **Punjab National Bank** | (9) | (4) | 0 | 1 | N (N) |
| **Union Bank of India** | (2) | (10) | (19) | (10) | U (U) |
| **VGI Global Media PCL** | (13) | (21) | (29) | 14 | N (O) |

## Connecting clients to corporates

### Hong Kong / China

**Seoul Semiconductor Co Ltd (046890.KQ)**
**Date** 19-21 February, Hong Kong
**Analyst** Keon Han

**Linc Energy (LINC.SI)**
**Date** 25 February, Hong Kong
**Analyst** David Hewitt

### Singapore

**Seoul Semiconductor Co Ltd (046890.KQ)**
**Date** 17-18 February, Singapore
**Analyst** Keon Han

**Linc Energy (LINC.SI)**
**Date** 24 February, Singapore
**Analyst** David Hewitt

### US

**China Mobile Games and Entertainment Group Limited (CMGE.O)**
**Date** 10-12 February, US
**Analyst** Dick Wei

### Others

**PT Indoritel Makmur International Tbk (DNET.JK)**
**Date** 13 February, Kuala Lumpur
**Analyst** Ella Nusantoro

**Asian Investment Conference 2014**
**Date** 24-28 March, Hong Kong
**Contact** cseq.events@credit-suisse.com or Your usual sales representative.



## Top of the pack ...

**India IT Services Sector** — **Anantha Narayan (3)**
New report: The 3QFY14 chartbook

**India Market Strategy** — **Neelkanth Mishra (4)**
Sustainable improvement in sales tax collections in States

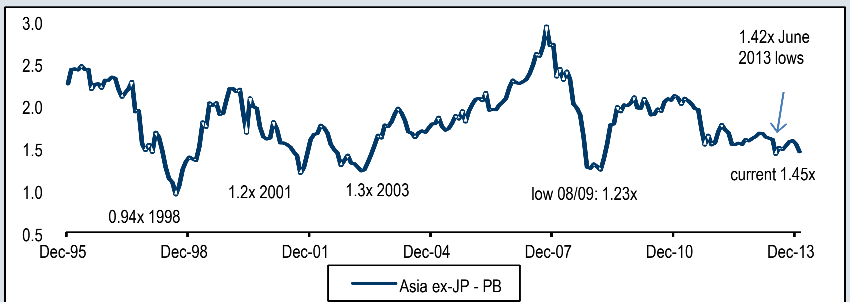
**Bank of India (BOI.BO) – Downgrade to U** — **Ashish Gupta (5)**
Still not reached the bottom

**PTT Global Chemical (PTTGC.BK) – Maintain O** — **Paworamon (Poom) Suvarnatemee, CFA (6)**
Positive outlook, a buying opportunity

## CS pic of the day

**How close to trough valuations? – MSCI Asia ex. Japan price-to-book**

The biggest concerns in our recent client visits in Singapore were EM contagion and China financial system fragility. Given these concerns, we highlight that MSCI Asia ex. Japan price-to-book has now dropped to 1.45x, just shy of the 1.42x reached at last June's lows. MSCI Korea and China appear closest to trough valuations. Given the differences between Asia and Turkey/ Argentina on current account position, forex reserves and inflation, we continue to suggest buying the dips.




*Source: MSCI*

## ... and the whole pack

### Regional

**Jump-Start** — **Manish Nigam (7)**
How close to trough valuations — Jump-Start highlights the best of our research this week

### Australia

**Navitas Ltd (NVT.AX) – Maintain O** — **Paul Buys (8)**
Expensive, but could remain that way

**Treasury Wine (TWE.AX) – Maintain U** — **Larry Gandler (9)**
Not time to buy: Stock has not been derated on diminished growth prospects

### Hong Kong

**Today is a public holiday in this market**

**Sands China (1928.HK) – Maintain O** — **Kenny Lau, CFA (10)**
Improvement in Cotai Central to continue driving growth in 2014

### India

**India Market Strategy** — **Neelkanth Mishra (4)**
Sustainable improvement in sales tax collections in States

**India IT Services Sector** — **Anantha Narayan (3)**
New report: The 3QFY14 chartbook

**Adani Enterprises Ltd. (ADEL.BO) – Maintain U** — **Amish Shah, CFA (11)**
3Q14 below estimates; trading volumes and margins witness sharp decline

## Asian indices - performance

| (% change) | Latest | 1D | 1W | 3M | YTD |
|---|---|---|---|---|---|
| ASX300 | 5,136 | (0.9) | (2.6) | (4.6) | (3.2) |
| CSEALL | 6,252 | 0.5 | 0.6 | 5.4 | 5.7 |
| Hang Seng | 21,902 | (1.1) | (3.7) | (6.0) | (6.0) |
| H-SHARE | 9,732 | (1.7) | (3.7) | (8.5) | (10.0) |
| JCI | 4,373 | (1.0) | (2.7) | (4.4) | 2.3 |
| KLSE | 1,792 | 0.2 | (0.9) | (1.4) | (4.0) |
| KOSPI | 1,941 | 1.3 | (1.5) | (5.8) | (3.5) |
| KSE100 | 26,596 | (0.2) | (1.7) | 19.2 | 5.3 |
| NIFTY | 6,120 | (0.1) | (3.6) | (2.1) | (2.9) |
| NIKKEI | 14,872 | (3.3) | (5.2) | 2.6 | (8.7) |
| TOPIX | 1,218 | (3.0) | (5.4) | 1.1 | (6.5) |
| PCOMP | 6,020 | (0.8) | (2.4) | (8.7) | 2.2 |
| RED CHIP | 4,184 | (2.1) | (4.6) | (7.9) | (8.1) |
| SET | 1,265 | (0.5) | (3.3) | (11.6) | (2.6) |
| VNINDEX | 557 | (0.7) | 0.5 | 12.1 | 10.3 |

Thomson Financial Datastream

## Asian currencies (vs US$)

| (% change) | Latest | 1D | 1W | 3M | YTD |
|---|---|---|---|---|---|
| A$ | 1.1 | (0.5) | (0.4) | (7.9) | (2.1) |
| Bt | 33.0 | 0.2 | (0.4) | (5.7) | (0.9) |
| D | 21,080.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| JPY | 102.2 | 0.6 | 1.1 | (3.6) | 3.1 |
| NT$ | 30.4 | (0.1) | (0.1) | (3.0) | (1.8) |
| P | 45.4 | 0.0 | (0.1) | (5.0) | (2.1) |
| PRs | 105.4 | (0.1) | 0.0 | 1.1 | (0.1) |
| Rp | 12,211.0 | (0.2) | (0.4) | (8.5) | (0.3) |
| Rs | 62.4 | (0.9) | (0.9) | (1.7) | (1.0) |
| S$ | 1.3 | 0.2 | 0.2 | (2.8) | (1.0) |
| W | 1,080.6 | (1.0) | (0.6) | (1.9) | (2.8) |

Thomson Financial Datastream

## Global indices

| (% change) | Latest | 1D | 1W | 3M | YTD |
|---|---|---|---|---|---|
| DJIA | 15,739 | (1.2) | (3.9) | 0.8 | (5.1) |
| S&P 500 | 1,774 | (1.0) | (3.8) | 0.6 | (4.0) |
| NASDAQ | 4,051 | (1.1) | (4.5) | 3.1 | (3.0) |
| SOX | 525 | (0.5) | (4.1) | 4.1 | (1.8) |
| EU-STOX | 2,846 | (0.6) | (4.5) | (0.5) | (2.5) |
| FTSE | 6,544 | (0.4) | (4.1) | (3.4) | (3.0) |
| DAX | 9,337 | (0.7) | (3.9) | 3.6 | (2.3) |
| CAC-40 | 4,157 | (0.7) | (3.9) | (2.7) | (3.2) |
| 10 YR LB | 3 | 0.3 | (3.3) | 5.8 | (11.3) |
| 2 YR LB | 0 | 0.0 | (2.3) | 12.4 | (7.5) |
| US$:E | 1.37 | (0.1) | (0.3) | (0.6) | (0.6) |
| US$:Y | 102.15 | 0.1 | 1.1 | (3.6) | 3.1 |
| BRENT | 108.97 | 0.5 | (0.2) | (1.0) | (1.7) |
| GOLD | 1,262.2 | (0.4) | (0.2) | (6.1) | 4.7 |
| VIX | 17.4 | 9.8 | 35.1 | 27.1 | 26.5 |

Thomson Financial Datastream

## MSCI Asian indices – valuation & perf.

| | EPS grth. | | P/E (x) | | Performance | | |
|---|---|---|---|---|---|---|---|
| MSCI Index | 13E | 14E | 13E | 14E | 1D | 1M | YTD |
| Asia F X Japan | 10 | 13 | 12.1 | 10.8 | 0.0 | (4.5) | (4.8) |
| Asia Pac F X J. | 7 | 12 | 12.9 | 11.5 | 0.0 | (4.4) | (4.7) |
| Australia | (3) | 7 | 15.6 | 14.6 | 0.8 | (3.3) | (4.3) |
| China | 11 | 9 | 9.2 | 8.4 | 1.8 | (6.1) | (6.3) |
| Hong Kong | 10 | 9 | 15.6 | 14.3 | (0.4) | (4.5) | (5.2) |
| India | 8 | 18 | 16.1 | 13.7 | 0.4 | (3.3) | (3.3) |
| Indonesia | 3 | 11 | 14.6 | 13.2 | 2.3 | 7.0 | 4.5 |
| Korea | 4 | 22 | 10.6 | 8.7 | 2.2 | (5.9) | (6.0) |
| Malaysia | (1) | 7 | 16.4 | 15.3 | 0.5 | (5.7) | (6.2) |
| Pakistan | 2 | 22 | 10.6 | 8.7 | (0.3) | 0.9 | 0.9 |
| Philippines | 8 | 7 | 19.0 | 17.7 | 0.9 | 1.1 | 1.1 |
| Singapore | (4) | 8 | 14.2 | 13.1 | (0.5) | (5.0) | (5.7) |
| Sri Lanka | 30 | 11 | 15.8 | 14.3 | (0.2) | (1.7) | (1.7) |
| Taiwan | 12 | 12 | 12.1 | 10.8 | (0.2) | (1.9) | (1.9) |
| Japan | 35 | 71 | 23.7 | 15.6 | 0.0 | 0.0 | 0.0 |

* IBES estimates

**Bank of India (BOI.BO) – Downgrade to U** — **Ashish Gupta (5)**
Still not reached the bottom

**Grasim (GRAS.BO) – Maintain O** — **Anubhav Aggarwal (12)**
Holding company discount to narrow driven by Chinese anti-dumping duty

**Hero Motocorp Ltd (HROM.BO) – Maintain U** — **Jatin Chawla (13)**
Disappointing quarter on margin miss

**Indian Overseas Bank (IOBK.BO) – Maintain U** — **Ashish Gupta (14)**
3QFY14:

**Infrastructure Development Finance Co Ltd (IDFC.BO) – Maintain O** — **Ashish Gupta (15)**
In a waiting mode

**Marico Ltd (MRCO.BO) – Maintain O** — **Arnab Mitra (16)**
3QFY14: Volume growth weakness clouds earnings beat

**Maruti Suzuki India Ltd (MRTI.BO) – Maintain O** — **Jatin Chawla (17)**
Intent seems fine; more specifics would have helped

**Petronet LNG Limited (PLNG.BO) – Maintain N** — **Sanjay Mookim (18)**
Lower utilisations, high LNG prices hurt; valuations supported by long-term contracts

**Punjab National Bank Ltd (PNBK.BO) – Maintain N** — **Ashish Gupta (19)**
Rising opex burden drags pre-provision profitability

**Union Bank of India (UNBK.BO) – Maintain U** — **Ashish Gupta (20)**
Weak profitability; constrained for capital

## Japan

**Honda Motor (7267) – Maintain O** — **Issei Takahashi (21)**
3Q results: 4Q EPS guidance near ¥100 is noteworthy

## Pakistan

**Pakistan 360° Tracker – Maintain OW** — **Farhan Rizvi, CFA (22)**
New report: Picking up where we left off in December

## Philippines

**Philippines Economics: GDP (4Q13)** — **Michael Wan (23)**
Unfazed by the Typhoon

## South Korea

**Korea Economics** — **Christiaan Tuntono (24)**
Export growth slowed in January, narrowing the trade surplus as per seasonal trend

## Thailand

**PTT Global Chemical (PTTGC.BK) – Maintain O** — **Paworamon (Poom) Suvarnatemee, CFA (6)**
Positive outlook, a buying opportunity

**VGI Global Media PCL (VGI.BK) – Downgrade to N** — **Warayut Luangmettakul (25)**
Overwhelming cyclical elements



**O=Outperform N=Neutral U=Underperform R=Restricted OW= Overweight MW=Market Weight UW=Underweight**

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|---|---|---|---|---|---|

## Top of the pack ...

# India IT Services Sector-----------------------------------------------------------------------------------

## New report: The 3QFY14 chartbook

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Sagar Rastogi / Research Analyst / 91 22 6777 3851 / sagar.rastogi@credit-suisse.com

- We look at growth trends in the sector on a rolling 12-month basis (excluding acquisitions) – this smoothens out the element of seasonality and any spike in a particular quarter caused by a particular client group, geography, etc. Click here for full report.
- Revenue growth has been accelerating for the past three quarters. US, financials, Europe are all accelerating. Telecom remains muted but is picking up as well – expectations are low and this segment can be a dark horse. Discretionary spend is picking up.
- The street is still not expecting acceleration in FY15. The above trends indicate that there could be some upside surprise to revenue growth numbers in FY15. While we think a FY11 type acceleration is unlikely, any upside surprise will drive upward earnings revisions and keep P/E multiples steady or possibly even re-rate them to some extent.
- HCLT and TCS remain our top picks. They are growing the fastest and with tremendous margin performance. Wipro has significant scope to improve margins. Some of Infosys' cited margin buffers may not necessarily be so, in our view.

**Valuation metrics**

| Company | Ticker | Rating | Price | | Year | P/E (x) | | P/B (x) |
|---|---|---|---|---|---|---|---|---|
| | | | Local | Target | T | T+1 | T+2 | T+1 |
| Tata Consultancy | TCS.BO | O | 2,236 | 2,750 | 03/13 | 23.4 | 20.3 | 8.7 |
| Infosys Ltd | INFY.BO | N | 3,699 | 3,800 | 03/13 | 19.7 | 16.9 | 4.7 |
| Wipro | WIPR.BO | O | 575 | 650 | 03/13 | 18.5 | 15.7 | 4.2 |
| HCL Tech | HCLT.BO | O | 1,465 | 1,675 | 06/13 | 16.7 | 14.6 | 5.4 |

Note: O = OUTPERFORM, N = NEUTRAL, U = UNDERPERFORM
Source: Company data, Credit Suisse estimates

### Dec-13 results indicate clear acceleration in growth

Whichever way the Dec-13 results of the top four India-listed companies are dissected, there are clear indications of a pick-up in trends. Overall revenue growth has been accelerating for the past three quarters and US, financials, Europe – three important segments – are all accelerating. Discretionary spending is picking up, and this can create incremental growth. Telecom remains muted but is showing some signs of a pick-up and can be a "dark horse" in 2014

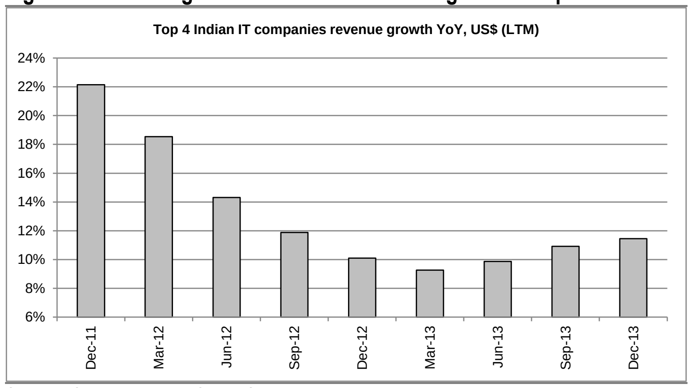
### Consensus revenue growth expectations currently do not build in a significant pick-up in FY15 vs. FY14

While we think a FY11 type acceleration is unlikely, any upside surprise will drive upward earnings revisions and keep P/E multiples steady or possibly even re-rate them to some extent.

### HCLT and TCS remain top picks

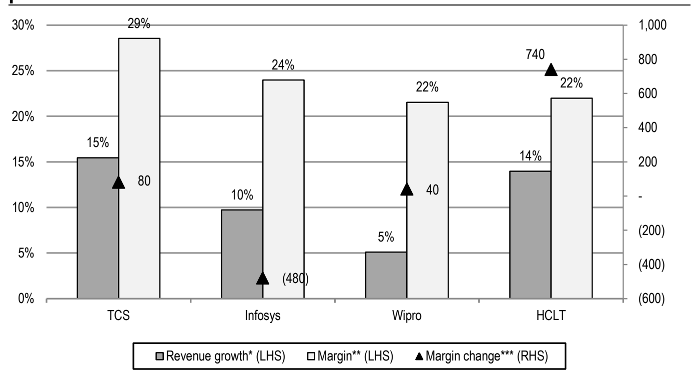
They are growing the fastest and with tremendous margin performance. HCLT's cash flow growth has been significantly ahead of peers for three quarters now. Utilisation and employee provisions have been cited as margin buffers for Infosys - in the past 12 months, Infosys has had the highest utilisation increase but the lowest margin increase. Employee provisions have also only normalised to historical levels.

**Figure 1: Revenue growth has been accelerating for three quarters**



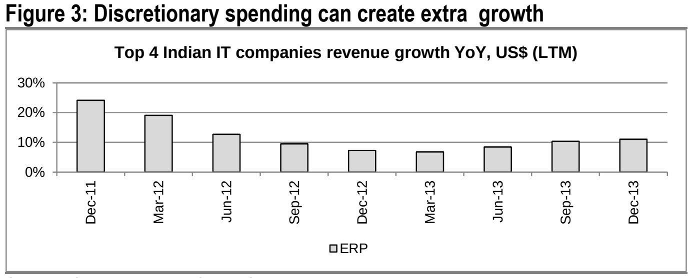

Source: Company data, Credit Suisse estimates.

**Figure 2: TCS and HCLT have best growth with strong margin performance**



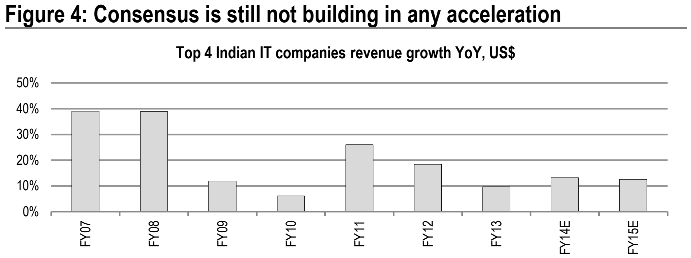

Notes: *LTM, US$ **LTM EBIT margin, ***Change in LTM EBIT margin over the past two years in bp. Source: Company data

**Figure 3: Discretionary spending can create extra growth**




Source: Company data, Credit Suisse estimates.

**Figure 4: Consensus is still not building in any acceleration**




Source: Company data, Consensus estimates (Thomson Reuters)

# India Market Strategy

## Sustainable improvement in sales tax collections in States

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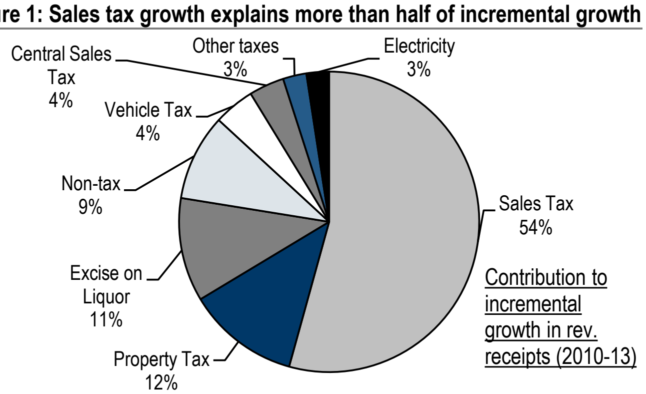
- During 2010-13, state-level receipts witnessed a 20% CAGR despite a slowing economy, keeping state fiscal deficits low. 54% of the rise in receipts came from sales tax (Fig 1): as % of total receipts it has risen since 2002, and the growth is widespread (Fig 3).
- Contrary to popular belief taxes on Property (12%) and Liquor (11%) were relatively small contributors to the growth in receipts. They are also concentrated in just 5-6 states: those with metros in case of property tax, and TN, Karnataka, AP, UP & MH for liquor.
- Remarkably, the growth in sales tax collections has been faster than nominal GDP growth, implying better compliance/a wider tax net. While the increase in petrol/diesel prices has helped sales tax collections, they have only contributed to a fourth of the increase, and have grown slower than average: their share has fallen.
- Thus, the rise in sales tax collections looks sustainable and likely due to delayed gains from the start of VAT (2005), better enforcement (computerisation) and a wider base. It shows how structural reforms show up with a lag, and how focusing only on the central govt. paints a misleading picture of the economy.

**Figure 1: Sales tax growth explains more than half of incremental growth**



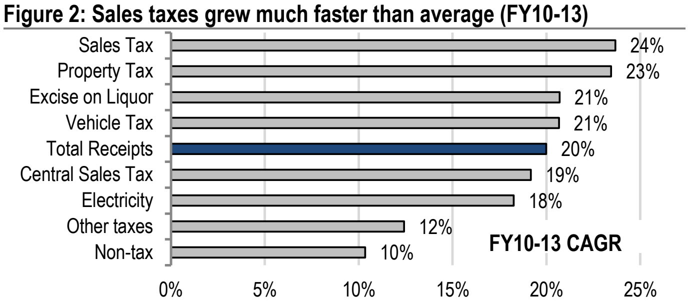

Source: Budget documents, RBI, Credit Suisse estimates.

### State's own revenue receipts: Structural shift

In our note on 30-Jan, we showed how state deficits are stabilising at low levels, thanks to the strong growth in revenue receipts (see here). Here, we investigate the source of this growth in receipts.

During 2010-13, state receipts witnessed a 20% CAGR. 54% of this came from the growth in sales tax (Fig 1), much in excess of the 44% share of total receipts it had in FY10.

**Figure 2: Sales taxes grew much faster than average (FY10-13)**



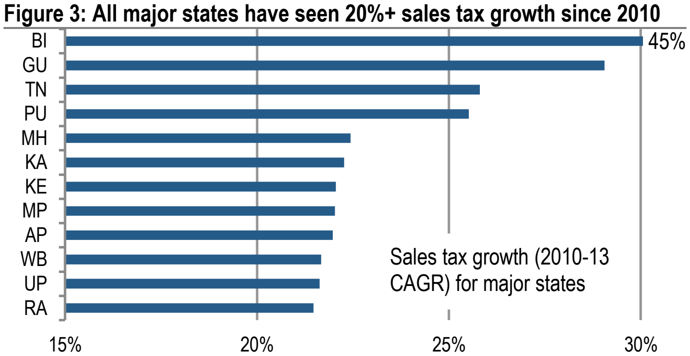

Source: Budget documents, RBI, Credit Suisse estimates.

### Liquor/Property taxes have mattered less than sales tax

Taxes on Property and Liquor, widely believed to be driving the surge in taxes, also grew, but had a much smaller contribution to overall growth in receipts. Moreover, these are concentrated in a few states: two-thirds of all property taxes come from the six states that have metros: MH (Mumbai, Pune), UP (Noida, Ghaziabad), TN (Chennai), WB (Kolkata), KA (Bangalore) and AP (Hyderabad). Similarly, almost two-thirds of liquor taxes from just five states: TN, KA, AP, UP and MH.

Sales tax growth on the other hand has been growing across states (Fig 3). As a result, the proportion of sales tax in revenue receipts has been consistently growing since at least 2002.

**Figure 3: All major states have seen 20%+ sales tax growth since 2010**

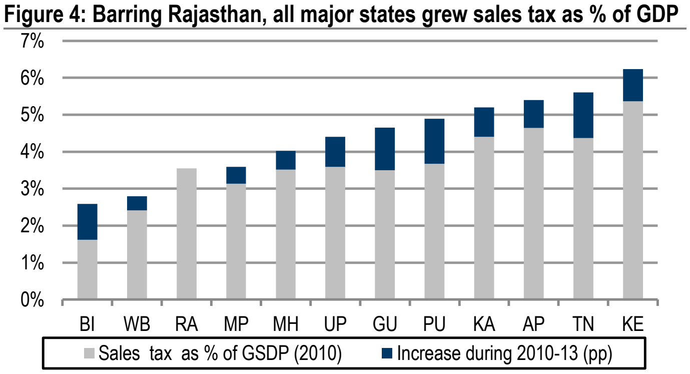



Source: Budget documents, RBI, Credit Suisse estimates.

### Sales tax collection growing faster than state GDPs

Activity-based taxes such as sales tax are generally not as cyclical as profit-based taxes such as, say, corporate income tax, and also benefit from inflation. However, we note that sales tax as a % of state GDPs has been climbing, implying better compliance/wider tax net.

**Figure 4: Barring Rajasthan, all major states grew sales tax as % of GDP**




Source: Budget documents, RBI, Credit Suisse estimates.

While the proportion of sales tax on oil products such as diesel and petrol has slipped from 36% in FY08 to 27% in FY13, rising petrol and diesel prices have helped increase collections: a fourth of the incremental sales tax growth came from sales tax on oil products. But bulk of the increase came from elsewhere: likely delayed gains from the VAT implementation, computerisation, and better enforcement and compliance.

## Bank of India------------------------------------------------------ Downgrade to UNDERPERFORM

**Still not reached the bottom**

**EPS: ▼ TP: ▼**

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Prashant Kumar / Research Analyst / 91 22 6777 3942 / prashant.kumar.3@credit-suisse.com

- Bank of India's 3Q14 net profit fell 27% YoY, 33% below estimate, on a significant rise in NPL provisions (~1.6% vs 1.1% in 2Q13). Asset quality worsened, contrary to management guidance of a QoQ improvement, with impaired asset additions rising to ~3.3%.
- Loan growth, surprisingly, continued to be very high, at 27% YoY, across almost all segments. PPoP growth was muted at 14% YoY, even as balance sheet grew 29% YoY, primarily as opex growth (+20% YoY) remained high, driven by employee provisions.
- Restructuring in 3Q was at Rs11.5 bn with further Rs15-17 bn restructuring likely in 4Q. Gross NPL declined ~12 bp QoQ despite high slippages (2.1% annual.) as the bank sold NPLs (of ~Rs12 bn in 3Q) to ARCs, boosting recoveries. Including security receipts, total unprovided for problem loans for the bank are ~93% of its net worth.
- Tier 1 ratio continues to be low at ~7.85% despite equity infusion by GoI. As loan growth remains high and profitability remains weak (ROA 0.6%, ROE 13%), we believe the bank will further need large capital injections. We cut EPS 9-15% on higher provisions and frequent dilution; reduce TP to Rs162; downgrade to UNDERPERFORM.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **BOI IN / BOI.BO** | **Price (30 Jan 14 , Rs)** | | | **186.35** |
| **Rating (prev. rating)** | **U (N) [V]** | **TP (prev. TP Rs)** | | | **162.00 (220.00)** |
| Shares outstanding (mn) | 642.26 | Est. pot. % chg. to TP | | | (13) |
| Daily trad vol - 6m avg (mn) | 4.2 | 52-wk range (Rs) | | | 353.9 - 130.9 |
| Daily trad val - 6m avg (US$ mn) | 13.8 | Mkt cap (Rs/US$ bn) | | | 119.7/ 1.9 |
| Free float (%) | 25.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | LIC (13.5%) | Absolute (%) | (23.3) | (15.9) | (47.2) |
| | | Relative (%) | (20.3) | (12.6) | (50.2) |

| **Year** | **03/12A** | **03/13A** | **03/14E** | **03/15E** | **03/16E** |
|---|---|---|---|---|---|
| Pre-prov Op profit (Rs mn) | 62,456.5 | 69,669.2 | 79,033.8 | 97,229.4 | 120,415.8 |
| Net profit (Rs mn) | 26,381 | 27,048 | 29,833 | 34,962 | 44,296 |
| EPS (CS adj. Rs) | 47.0 | 46.2 | 48.1 | 51.6 | 62.3 |
| - Change from prev. EPS (%) | n.a. | n.a. | (9) | (13) | (15) |
| - Consensus EPS (Rs) | n.a. | n.a. | 49.0 | 56.8 | 64.7 |
| EPS growth (%) | 2.5 | (1.8) | 4.2 | 7.3 | 20.6 |
| P/E (x) | 4.0 | 4.0 | 3.9 | 3.6 | 3.0 |
| Dividend yield (%) | 3.7 | 5.4 | 5.4 | 5.9 | 7.5 |
| BVPS (CS adj. Rs) | 343 | 381 | 405 | 424 | 471 |
| P/B (x) | 0.54 | 0.49 | 0.46 | 0.44 | 0.40 |
| ROE (%) | 14.8 | 12.7 | 12.2 | 12.4 | 13.9 |
| ROA (%) | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 |
| Tier 1 Ratio (%) | 8.59 | 8.20 | 7.81 | 7.80 | 7.48 |

*Note 1: Bank of India is the 5th largest government-owned bank in India with 3,500 branches and an asset base of Rs3500bn at March 31, 2011.*

Click here for detailed financials

### All-round weakness in operating performance

Loan growth, surprisingly, continued to remain very high at 27% YoY and is a cause of concern given BoI's weak Tier 1 and deteriorating asset quality. NIM was stable at 2.4%, while core non-interest income was steady at 14% YoY. Pre-provision profit growth was muted at 14% YoY even as balance sheet grew 29% YoY. Operating profit growth decline was muted during 1Q (-9% YoY), primarily as opex growth (+20% YoY) remained high, driven by employee provisions (Rs400 mn during 3Q, outstanding Rs2.4 bn). ROA was low at 0.6% despite healthy treasury (~Rs0.9 bn) and tax writebacks (tax rate of 21%).

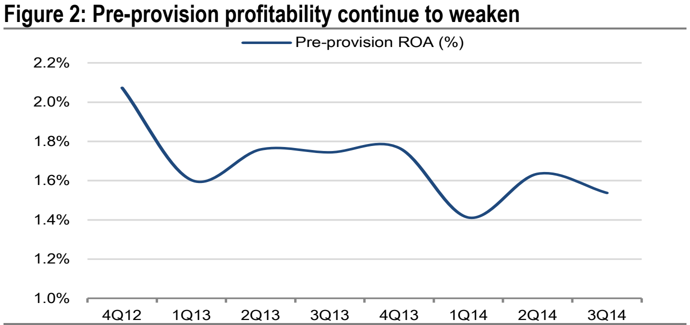
Asset quality worsened with gross slippages high at Rs17.5 bn (2.1% annualised. Restructuring was also higher at Rs11.5 bn (vs Rs8.6 bn in 2Q). Credit cost was elevated (1.6%), despite NPL cover remaining below <40%. Gross NPL declined ~12 bp QoQ as the bank sold NPLs (of ~Rs12 bn in 3Q) to ARCs boosting recoveries. It further expects restructuring of ~Rs15-17 bn in 4Q, including accounts of ~Rs4 bn from NPLs likely being upgraded post restructuring. Including security receipts, total unprovided for problem loans for the bank is ~93% of its net worth.

**Figure 1: 3Q14 results summary**

| (Rs mn) | 3Q14 | 3Q13 | YoY (%) | 2Q14 | QoQ (%) |
|---|---|---|---|---|---|
| **NII** | **27,190** | **23,085** | **18%** | **25,269** | **8%** |
| Core non-interest income | 9,701 | 8,511 | 14% | 10,393 | -7% |
| Total income | 36,892 | 31,596 | 17% | 35,661 | 3% |
| Total opex | 16,722 | 13,898 | 20% | 15,249 | 10% |
| Pre-prov profits | 20,170 | 17,698 | 14% | 20,412 | -1% |
| Total provisions | 13,697 | 8,958 | 53% | 12,773 | 7% |
| **Operating profits** | **6,472** | **8,740** | **-26%** | **7,639** | **-15%** |
| Treasury* | 930 | 660 | 41% | 1,060 | -12% |
| PBT | 7,402 | 9,400 | -21% | 8,699 | -15% |
| **Reported profit** | **5,858** | **8,035** | **-27%** | **6,215** | **-6%** |
| **Key parameters (Rs bn)** | | | | | |
| Advances | 3,517 | 2,765 | 27% | 3,322 | 6% |
| Deposits | 4,541 | 3,491 | 30% | 4,323 | 5% |
| NIM (%) | 2.4% | 2.4% | 1 | 2.4% | -2 |
| CASA (%) | 30.0% | 33.8% | -383 | 29.7% | 27 |
| Tier 1 (%) | 8.1% | 7.6% | 46 | 8.1% | -3 |
| **ROA (%)** | **0.4%** | **0.8%** | **-35** | **0.5%** | **-5** |
| Gross NPA (%) | 2.8% | 3.1% | -27 | 2.9% | -12 |
| **Net NPA (%)** | **1.7%** | **2.0%** | **-23** | **1.9%** | **-11** |
| Coverage ratio (%) | 38.7% | 36.7% | 192 | 37.7% | 98 |
| Restr'd loans (%) | 5.2% | 6.6% | -134 | 5.3% | -5 |

*Treasury = profit from sales of investments – investment depreciation. Source: Company data, Credit Suisse estimates

**Figure 2: Pre-provision profitability continue to weaken**




Source: Company data, Credit Suisse estimates

### Weak profitability, frequent dilutions likely; Downgrade to UNDERPERFORM

Core Equity Tier 1 ratio continues to be low at ~7.85% despite equity infusion by GoI in the last quarter (8% dilution). Continued high loan growth remains a cause of concern as given its weak profitability (ROA 0.6%, ROE 13%), this would require frequent equity dilution for the bank. Asset quality stress remains high with the degree of under-provisioning being large (unprovided for problem loans at 93% of net worth, NPL coverage at 39%). We cut our EPS estimate by 9-15% on higher provisions and build in dilution in FY14 and FY15. We reduce TP to Rs162 (from Rs220) and downgrade the stock to UNDERPERFORM (from Neutral).

# PTT Global Chemical ------------------------------------------------------ Maintain OUTPERFORM

**Positive outlook, a buying opportunity** **EPS: ◄► TP: ◄►**

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- Petrochemical stocks in Asia declined 3-13% over the past one month with PTTGC amongst the worst performers. Apart from fundamental concerns on weak earnings (reported earlier by Korean companies) and weaker Paraxylene margins, the news of potential co-investments with IRPC hurt PTTGC's share price.
- We believe that investors should assume the amalgamation of PTTGC and IRPC will happen by 2016-17 with the pricing to be done in 2H15 at the earliest. In the past transaction, the share price direction ahead of the pricing was determined by the margin outlook of each company.
- PTTGC has good product exposure in PE and MEG, which are expected to recover strongly. PX margins are already low and expected to bounce with delays in new supplies. Refining GRM has already rebounded from the low in 4Q13.
- We believe the recent pullback in share price is a buying opportunity for investors on a 12-month view. We expect margin recovery and multiple expansion to be key drivers. Maintain OUTPERFORM.

| **Bbg/RIC** | **PTTGC TB / PTTGC.BK** | **Price (30 Jan 14, Bt)** | | | **69.50** |
|---|---|---|---|---|---|
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP Bt)** | | | **95.00 (95.00)** |
| Shares outstanding (mn) | 4,505.98 | Est. pot. % chg. to TP | | | 37 |
| Daily trad vol - 6m avg (mn) | 10.2 | 52-wk range (Bt) | | | 80.5 - 65.3 |
| Daily trad val - 6m avg (US$ mn) | 23.1 | Mkt cap (Bt/US$ bn) | | | 313.2/ 9.5 |
| Free float (%) | 51.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | PTT(49%) | Absolute (%) | (12.0) | (9.4) | (13.1) |
| | | Relative (%) | (9.4) | 2.1 | 1.1 |

| **Year** | **12/11A** | **12/12A** | **12/13E** | **12/14E** | **12/15E** |
|---|---|---|---|---|---|
| Revenue (Bt mn) | 500,305 | 562,811 | 565,396 | 598,013 | 586,562 |
| EBITDA (Bt mn) | 47,051 | 57,279 | 57,556 | 64,495 | 64,691 |
| Net profit (Bt mn) | 23,255 | 34,001 | 29,584 | 36,951 | 36,192 |
| EPS (Bt) | 5.17 | 7.55 | 6.57 | 8.20 | 8.03 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Bt) | n.a. | n.a. | 7.42 | 8.41 | 8.67 |
| EPS growth (%) | 42.3 | 46.0 | (13.0) | 24.9 | (2.1) |
| P/E (x) | 13.5 | 9.2 | 10.6 | 8.5 | 8.7 |
| Dividend yield (%) | 4.8 | 4.9 | 4.6 | 5.3 | 5.2 |
| EV/EBITDA (x) | 8.7 | 6.8 | 6.5 | 5.5 | 5.1 |
| P/B (x) | 1.7 | 1.5 | 1.4 | 1.3 | 1.2 |
| ROE (%) | 12.5 | 17.2 | 13.6 | 15.8 | 14.2 |
| Net debt(cash)/equity (%) | 46.8 | 32.3 | 24.5 | 14.8 | 6.2 |

*Note 1: PTTGC, formed following the merger of PTTCH and PTTAR in 2011, is the largest fully integrated petrochemical and refining firm in Thailand both in terms of size and product diversification.*

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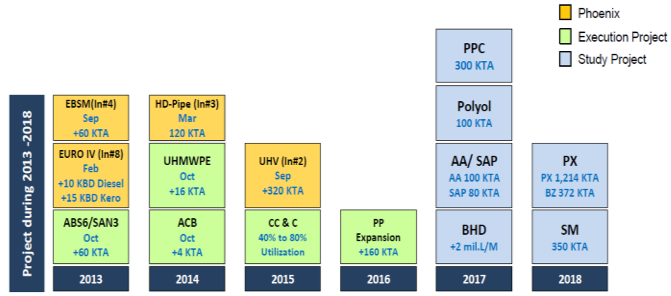
### Studying plans to co-invest with IRPC

IRPC and PTTGC have jointly studied co-investing in four of IRPC's six projects targeted to start in 2017. Total investment for the 6 IRPC projects is Bt65 bn (US$2 bn). According to IRPC's plan, these projects are scheduled to start up during 2017-18. IRPC's 6 projects include: (1) 1.2mnt/yr of PX + 0.372mnt/yr of BZ, (2) PP Compound (0.3mnt/yr), (3) Polyol (0.1mnt/yr), (4) AA/SAP (0.1mnt/yr, and 0.08mnt/yr), (5) Bio-Hydrogenated diesel (BHD) (0.2m litre/month), and (6) SM 0.35mnt/year.

### Potential investments hurt share price

The share price has fallen by 3% after this news, as (1) new projects (non-gas) are likely to dilute return to PTTGC's existing gas-based business, and (2) there is the possibility of a merger with IRPC (the company with the weakest profitability in PTT's listed downstream affiliates according to its reported financial numbers). If both companies decide to co-invest, we see a higher chance of the merger plan between PTTGC and IRPC getting accelerated.

**Figure 1: IRPC's expansion road map**




Source: Company data

### What to expect? Merger with IRPC in 2016-17

PTT's long-term plan appears clear. All of its petrochemical affiliates would be merged into one. As such, we believe that investors should assume the amalgamation of PTTGC and IRPC will happen by 2016-17 with the pricing to be done in 2H15, at the earliest. In the previous mergers of ATC (delisted) and RRC (delisted), both companies co-invested in a few expansion projects with initial agreements signed as two separate entities. One year prior to project completion, the two companies merged. We expect a similar arrangement for IRPC and PTTGC, suggesting a merger in 2016 at the earliest.

### Margins of ethylene, PX and GRM likely to be share price driver

In the past mergers of the PTT group, the share price direction ahead of the pricing was determined by the margin outlook of each company. We are positive on the outlook of the PTTGC business, especially PE and MEG. Demand and supply balance is expected to improve over the next two years. As PX margins have fallen faster than expected over the past month to below US$400/t, we see limited downside and the possibility of a bounce in 2Q14, especially with delays to new projects earlier scheduled for 1H14 start-up in Korea, India and China.

### 4Q13 results unlikely to disappoint

PTTGC is due to announce its earnings in mid-Feb. From management guidance in the analyst preview meeting yesterday, we do not expect earnings to disappoint. Our full-year forecast implies 4Q13 net profit of Bt4.1 bn as we include Bt2 bn of unrealised forex loss. Management indicated that the company would be able to offset some forex loss with hedging gains and book some inventory gains from higher oil prices.

### Recent pullback provides a buying opportunity

We think investors should consider the current weakness in share price as an opportunity to accumulate. We maintain our OUTPERFORM rating on PTTGC with a target price of Bt95.

## Regional

# Jump-Start

## How close to trough valuations — Jump-Start highlights the best of our research this week

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- Asia Equity Strategy: How close to trough valuations. The biggest concerns in our recent client visits in Singapore were EM contagion and China financial system fragility. Sakthi Siva in her report highlights that MSCI Asia ex. Japan price-to-book has now dropped to 1.45x, just shy of the 1.42x reached at last June's lows.
- Focusing on key concerns – valuation and crowdedness – Sakthi has taken out Japan from the Expensive-4 club. Japan's premium to the region has halved from 35% in June 2013 to 19% currently as its ROE has risen from 6.1% in June 2013 to 8% currently.
- HSBC PMI falls below 50... sell cyclicals? Sakthi argues that she is staying Overweight cyclicals as rest of world demand looks strong, supply/capex is being cut, currency weakness provides a translation tailwind and valuations are still attractive.
- Net foreign buying. After eight consecutive months of net foreign selling, foreigners are net buyers of Indonesia to the tune of US$297 mn. But the other TIPs—Thailand and the Philippines—are associated with (small) net foreign selling so far in Jan. Click here for Jump-Start.

**Asia Equity Strategy: How close to trough valuations.** The biggest concerns in our recent client visits in Singapore were EM contagion and China financial system fragility. Sakthi Siva in her report highlights that MSCI Asia ex. Japan price-to-book has now dropped to 1.45x, just shy of the 1.42x reached at last June's lows. Given the differences between Asia and Turkey/Argentina on current account position, forex reserves and inflation, she continues to suggest buying the dips. Link.

**Focusing on key concerns – valuation and crowdedness** – Sakthi has taken out Japan from the Expensive-4 club. Japan's premium to the region has halved from 35% in June 2013 to 19% currently as its ROE has risen from 6.1% in June 2013 to 8% currently. Link.

**HSBC PMI falls below 50... sell cyclicals?** In a report that analyses whether it is time to sell cyclicals, Sakthi argues that she is staying Overweight cyclicals (in particular Tech, Consumer Cyclicals, Materials) as rest of world demand looks strong, supply/capex is being cut, currency weakness provides a translation tailwind (particularly for Indian IT, Australian and Indian Materials) and valuations are still attractive. When it comes to **net foreign buying**, Sakthi ponders if interest is returning to TIPS. She highlights that after eight consecutive months of net foreign selling, foreigners are net buyers of Indonesia to the tune of US$297 mn. But the other TIPs—Thailand and the Philippines—are still associated with (small) net foreign selling so far in Jan.

**Figure 1: NJA equities events calendar**

| Date | Co./Analyst | Location | Market | Sector |
|---|---|---|---|---|
| **Analyst Marketing** | | | | |
| Jan 28 - Feb 3 | Amish Shah | India | India | Utilities |
| Jan 30 - Feb 3 | Fraser McLeish | Europe | Australia | Software & Servces |
| Jan 29 - Feb 7 | James Ellis | Australia | Australia | Banks |
| Feb 1 - Feb 12 | Andy Shaw | Australia | Global | Commodities |
| Feb 3 - Feb 7 | Gil Kim/A-Hyung Cho | Europe | South Korea | Other sec |
| Feb 3 - Feb 7 | David Hewitt/ Mark Samter | US | Regional | Oil & Gas |
| Feb 3 - Feb 12 | Andy Shaw | Australia | NJA | - |
| Feb 3 - Mar 13 | Hitoshi Hayakawa | Japan | Japan | Div. Telecomms Services |
| Feb 4 | Hasan Tevfik | Australia | Australia | Strategy |
| Feb 4 - Feb 7 | Fraser McLeish | US | Australia | Software & Servces |
| Feb 4 - Feb 7 | Hiro Shirakawa | Japan | Japan | Economics |
| Feb 4 - Feb 7 | Jahanzeb Naseer | Indonesia | Indonesia | Quantitative |
| Feb 5 - Feb 14 | Dick Wei | US | HK/China | Internet |
| Feb 6 - Feb 7 | Grant Saligari | Australia | Australia | Retail |
| **Non-Deal Road Show** | | | | |
| Feb 3 | Rajawali Corporation | Singapore | Indonesia | Metals & Mining |
| Feb 4 | Navitas | Australia | Australia | Education & Learning |
| Feb 4 - Feb 6 | Rajawali Corporation | US | Indonesia | Metals & Mining |
| Feb 5 | Starhill REIT | Europe | Singapore | Property |
| Feb 5 - Feb 6 | PTT Public Company Ltd | Singapore | Thailand | Oil & Gas |
| Feb 5 - Feb 7 | Start Today | Japan | Japan | Internet |
| Feb 6 | istyle Inc. | Japan | Japan | Advt & Marketing Services |
| Feb 7 - Feb 10 | Malaysia Airports | Malaysia | Malaysia | Airport Services |

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**Figure 2: Forthcoming results (stocks with market cap > US$500 mn)**

| Date of Results* | Period | Company | Ctry | Bberg | Price (local$) 27 Jan | Price (local$) Target | Rating | Net profit (local$ mn) Consensus | Net profit (local$ mn) CS | CS vs Consensus (%) | EPS (local$) Consensus | EPS (local$) CS | What we expect |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Feb-04 (E) | 2013 | Baidu | CN | BIDU US | US$158.68 | US$220.00 | O | 10,754 | 11,296 | 5 | 30.46 | 32.06 | |
| Feb-05 (E) | 2013 | Glorious Property | CN | 845 HK | HK$1.28 | HK$1.00 | U | 786 | 769 | (2) | 0.11 | 0.10 | |
| Feb-05 (E) | 2013 | Kalbe Farma | ID | KLBF IJ | 1,355 | 1,220 | N | 1,975,269 | 1,956,299 | (1) | 41.54 | 41.73 | |
| Feb-01 | 2014Q3 | Godrej Consumer | IN | GCPL IN | 692.50 | 940.00 | O | 8,151 | 7,987 | (2) | 23.95 | 23.47 | |
| Feb-01 | 2014Q3 | Grasim | IN | GRASIM IN | 2,594 | 3,280 | O | 24,815 | 24,636 | (1) | 261.71 | 268.60 | |
| Feb-01 | 2014Q3 | Oberoi Realty | IN | OBER IN | 187.30 | 275.00 | O | 5,501 | 7,219 | 31 | 17.03 | 21.99 | |
| Feb-03 | 2014Q3 | Jaiprakash Power | IN | JPVL IN | 13.65 | 35.00 | O | 2,832 | 2,145 | (24) | 1.13 | 0.73 | |
| Feb-03 | 2014Q3 | Lupin | IN | LPC IN | 895.75 | 1,025 | O | 16,842 | 17,093 | 1 | 37.30 | 38.31 | |
| Feb-04 | 2014Q3 | Cummins India | IN | KKC IN | 435.00 | 382.00 | N | 6,113 | 6,190 | 1 | 22.01 | 22.33 | |
| Feb-04 (E) | 2014Q3 | J&K Bank | IN | JKBK IN | 1,302 | 1,700 | O | 11,758 | 11,885 | 1 | 241.07 | 245.09 | |
| Feb-04 | 2014Q3 | Jubilant Foodworks | IN | JUBI IN | 1,114 | 1000.00 | U | 1,520 | 1,490 | (2) | 23.25 | 22.82 | |
| Feb-04 (E) | 2014Q3 | Taro Pharma | IN | TARO US | US$101.00 | US$85.00 | O | US$265 | US$265 | (0) | US$5.93 | US$5.93 | |
| Feb-04 | 2014Q3 | Tech Mahindra | IN | TECHM IN | 1,764 | 1,925 | O | 27,587 | 27,404 | (1) | 121.89 | 115.56 | |
| Feb-04 (E) | 2014Q3 | United Spirits | IN | UNSP IN | 2,620 | 2,650 | O | 4,421 | 5,605 | 27 | 30.51 | 39.16 | |
| Feb-05 | 2014Q3 | BHEL | IN | BHEL IN | 162.55 | 99.00 | U | 39,541 | 30,295 | (23) | 16.30 | 12.38 | |
| Feb-05 | 2013 | GSK Consumer | IN | SKB IN | 4,258 | 5,000 | N | 5,170 | 5,108 | (1) | 122.30 | 121.46 | |
| Feb-05 | 2013 | Ranbaxy | IN | RBXY IN | 310.25 | 345.00 | N | n.a | 2,873 | n.a | n.a | 6.81 | |
| Feb-04 to 06 (E) | 2013 | Amorepacific | KR | 090430 KS | 1,024,000 | 1,100,000 | O | 266,411 | 257,079 | (4) | 41,987 | 37,247 | |
| Feb-04 morning | 2013 | CJ OS | KR | 035760 KS | 407,000 | 400,000 | O | 124,872 | 148,468 | 19 | 20,451 | 24,675 | |
| Feb-04 (E) | 2013 | Hyundai Dev | KR | 012630 KS | 24,450 | 30,000 | O | (102,896) | (79,663) | n.m | (1,279) | (1,083) | |
| Feb-04 @ 10:00 | 2013 | SK Innovation | KR | 096770 KS | 128,500 | 170,000 | O | 1,080,814 | 1,064,479 | (2) | 11,659 | 11,607 | |
| Feb-05 (E) | 2013 | GS Holdings | KR | 078930 KS | 52,200 | 52,000 | N | 514,048 | 544,536 | 6 | 5,565 | 5,861 | |
| Feb-05 | 2013 | Hyundai Home | KR | 057050 KS | 182,000 | 175,000 | O | 200,403 | 162,486 | (19) | 16,691 | 13,541 | |
| Feb-05 | 2013 | Lotte Chemical | KR | 011170 KS | 204,500 | 280,000 | O | 392,650 | 383,640 | (2) | 11,557 | 11,194 | |
| Feb-05 (E) | 2013 | SECB | PH | SECB PM | 118.50 | 112.50 | U | 5,659 | 4,287 | (24) | 9.50 | 7.11 | |
| Feb-01 (E) | 2013 | HPHT | SG | HPHT SP | US$0.67 | US$0.82 | O | HK$1,949 | HK$1,986 | 2 | HK$0.23 | HK$0.23 | In line |
| Feb-03 (E) | 2013 | CMA | SG | CMA SP | 1.80 | 2.58 | O | 286 | 254 | (11) | 0.07 | 0.07 | In line |

Notes: Credit Suisse and consensus net profit and EPS forecasts are based on FY forecasts. This calendar excludes stocks with market cap < US$500 mn. The date of release for stocks listed in US are based on HK date and time, all other stocks are based on the date and time of the listed exchange. * Confirmed dates but are subject to change, (E) = estimated date, Positive surprise, Negative surprise. Source: the BLOOMBERG PROFESSIONAL™ service, company data, Datastream, Credit Suisse estimates.

Australia

## Navitas Ltd ------------------------------------------------------------------ Maintain OUTPERFORM

**Expensive, but could remain that way** **EPS: ▲ TP: ▲**

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- Reaffirmation of FY14 guidance and the composition of a 1H14 result marked by a sharp increase in costs but very strong top-line growth increase our conviction for both FY14 and the growth outlook beyond that. Click here for full report.
- NVT remains undeniably expensive, but as long as growth looks to be on an increasing trajectory supported by favourable tailwinds at both industry (regulatory, international student drivers) and company levels (new colleges, currency), we believe the stock will continue to trade at a significant premium to the market.
- NVT reported 1H14 EBITDA of $63.2 mn (+6% on pcp) and NPAT of $36.1 mn (+3%). The result was moderately below our expectation (~5% at EBITDA level), but the miss was at the cost line, with strong revenue growth (+19%) well ahead of our estimate.
- We stay towards the upper end of the FY14 guidance range ($138-148 mn), with ~6-7% EPS upgrades for outer years. Our TP moves from $6.80 to $7.35. NVT trades around 1 standard deviation above its long-run P/E relative to the Small Industrial index (XSI).

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **NVT AU / NVT.AX** | **Price (30 Jan 14 , A$)** | | | **6.57** |
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP A$)** | | | **7.35 (6.80)** |
| Shares outstanding (mn) | 375.42 | Est. pot. % chg. to TP | | | 12 |
| Daily trad vol - 6m avg (mn) | 0.9 | 52-wk range (A$) | | | 6.57 - 4.78 |
| Daily trad val - 6m avg (US$ mn) | 6.4 | Mkt cap (A$/US$ mn) | | | 2,466.5/ 2,152.8 |
| Free float (%) | 61.2 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | | Absolute (%) | 2.2 | 15.3 | 37.4 |
| | | Relative (%) | 5.2 | 19.4 | 31.5 |

| Year | 06/12A | 06/13A | 06/14E | 06/15E | 06/16E |
|---|---|---|---|---|---|
| Revenue (A$ mn) | 688 | 730 | 869 | 984 | 1,067 |
| EBITDA (A$ mn) | 126.8 | 130.0 | 144.0 | 176.9 | 197.6 |
| Net profit (A$ mn) | 73.1 | 74.6 | 82.6 | 108.1 | 125.8 |
| EPS (A$) | 0.19 | 0.20 | 0.22 | 0.29 | 0.34 |
| - Change from prev. EPS (%) | n.a. | n.a. | -1.8 | 6.1 | 6.7 |
| - Consensus EPS (A$) | n.a. | n.a. | 0.23 | 0.28 | 0.34 |
| EPS growth (%) | (8.5) | 1.9 | 10.7 | 30.9 | 16.4 |
| P/E (x) | 33.7 | 33.1 | 29.9 | 22.8 | 19.6 |
| Dividend yield (%) | 3.0 | 3.0 | 3.0 | 3.5 | 4.1 |
| EV/EBITDA (x) | 20.4 | 19.7 | 17.5 | 13.8 | 12.0 |
| P/B (x) | 10.5 | 10.4 | 10.0 | 9.0 | 8.1 |
| ROE (%) | 30.8 | 31.6 | 34.2 | 41.7 | 43.5 |
| Net debt(cash)/equity (%) | 50.1 | 40.2 | 20.6 | (7.8) | (29.8) |

*Note 1: Navitas Limited is provides educational services to domestic and overseas students. The Company operates five segments: University Programs, English, Workforce segment delivers vocational and job skills training, Student Recruitment & Corporate.*

Click here for detailed financials

### Key takeaways

1H14 result was slightly below our estimates due to costs, but composition and reaffirmed guidance increase our conviction for FY14. NVT reported 1H14 EBITDA of $63.2 mn (+6% on the pcp) and NPAT of $36.1 mn (+3%). The result was below our expectation (~5% at the EBITDA level) but the miss was at the cost line, with strong revenue growth (+19%) well ahead of our estimate.

The strong revenue growth/increased cost story was consistent with NVT's previous trading update (October 2013) where it provided FY14 guidance and we were not surprised to see NVT reaffirm its expectation for FY14 EBITDA of $138-148 mn. As discussed further below, leading operational indicators and current momentum point to further top-line growth, while the cost base should start to stabilise at its higher level.

**FX gains support revenue growth, but that's part of the attraction!** Stripping out the benefit of currency gains from a weaker AUD, revenue growth would have dropped from +19% to +14%, with SAE one of the biggest beneficiaries (UP was as well, but US college losses were actually pronounced as a result of fx moves). We see currency as a key part of the attraction of the NVT story, with benefits from translation gains from its international portfolio, as well as potentially increased attractiveness of its Australian colleges supportive of the investment thesis.

**Cost growth mainly ascribed to investment and implies future margin expansion.** Again consistent with the trading update, most of the cost growth was due to increased investment in systems and people. NVT provided a long list of examples, including corporate and operational staff hires (finance, administration, HR, marketing, academic), a complete overhaul of SAE US management (an initiative coming out of the strategic review, which identified that area as a key growth opportunity), increased focus on placing marketing resource in source (rather than destination) countries and CRM and student navigation systems. As expected, higher EVA (incentive) payments further contributed to increased corporate costs.

The scale of the cost growth (+21% on the pcp) had a concomitant negative impact on margins, but NVT is adamant that the nature of the increased expenditure (investment for future growth) means that the historical operating leverage of the business model should continue to be evident in future periods. Based on what we have seen so far, we largely accept this view at face value, and our forecasts imply a degree of margin expansion FY15 onwards. That said, we have stopped short of expecting margins to revert all the way back to historical levels, preferring a more cautious approach for now.

**University Programs (UP) commentary implies student enrolments are tracking well ahead of 1-Sem-14.** NVT stopped short of giving a quantified update on how student enrolments are tracking for the key 1-Sem-14 period (especially important for Australian colleges), but based on their commentary and momentum from the third semester of CY13 (where new student recruitment was tracking >30%), we believe it is likely to post a strong result in that regard as regulatory (and, to a lesser extent, AUD) tailwinds continue to see enrolments recover to historical levels.

Achievement of operational breakeven for US colleges and the benefit of new colleges (New Zealand and the UK) provide further impetus to the FY14 enrolment outlook. Likewise, FX-adjusted price increases are having a positive effect, with the currency impact offsetting a slightly lower underlying rate of price increase than in previous periods. Mix effect is also supportive as higher fee jurisdictions such as Australia and the US are growing faster than lower-fee countries.

UP remains the key stock and earnings driver for NVT. NVT expects 2H14 growth to exceed that posted in 1H14, notwithstanding continued impact from investment.

*(This is an extract from the Navitas Ltd report published on 30 January 2013. Please see R&A for details.)*

## Treasury Wine------------------------------------------------------------ Maintain UNDERPERFORM

**Not time to buy: Stock has not been derated on diminished growth prospects** **EPS: ▼ TP: ▼**

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- We cut EPS by over 20% across forecast period. TWE downgraded its EBITS guidance range by 17%, measured from midpoint (A$190-210 mn). TWE cited China austerity, Australian X-mas and destocking in North America as contributing factors.
- The TWE board was late to understand the severity of a US inventory crisis and the impaired state of the US operations, and also late to acknowledge a China slowdown. It persisted with aggressive earnings guidance for several months.
- FY14 guidance implies 2H EBITS growth of 5-22%. Remarkably, this is broadly unchanged from the previous guidance in August; however, FX rates moved in TWE's favour since the original guidance in August such that a further A$11 mn of FX benefit was factored in.
- Our DCF-based target price falls to A$3.15. We cut back future working capital and capex. We expect the board to take a more realistic approach to growth. This supported the valuation somewhat. Our sum-of-the-parts valuation falls to A$3.25 on reduced multiple for Penfolds and higher net debt. We reduce our Penfolds valuation by 20% to A$1.2 bn. Full report

| | | | |
|---|---|---|---|
| **Bbg/RIC** | **TWE AU / TWE.AX** | **Price (30 Jan 14 , A$)** | **3.64** |
| **Rating (prev. rating)** | **U (U)** | **TP (prev. TP A$)** | **3.15 (3.75)** |
| Shares outstanding (mn) | 647.23 | Est. pot. % chg. to TP | (13) |
| Daily trad vol - 6m avg (mn) | 3.8 | 52-wk range (A$) | 6.43 - 3.64 |
| Daily trad val - 6m avg (US$ mn) | 20.0 | Mkt cap (A$/US$ mn) | 2,355.9/ 2,056.2 |
| Free float (%) | 99.9 | | |
| Major shareholders | | | |

| Performance | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | (24.5) | (22.1) | (23.2) |
| Relative (%) | (21.4) | (17.9) | (29.2) |

| Year | 06/12A | 06/13A | 06/14E | 06/15E | 06/16E |
|---|---|---|---|---|---|
| Revenue (A$ mn) | 1,641 | 1,689 | 1,713 | 1,873 | 1,939 |
| EBITDA (A$ mn) | 276.8 | 285.0 | 275.9 | 337.2 | 356.9 |
| Net profit (A$ mn) | 136.1 | 136.8 | 162.4 | 196.4 | 155.3 |
| EPS (A$) | 0.21 | 0.21 | 0.25 | 0.30 | 0.24 |
| - Change from prev. EPS (%) | n.a. | n.a. | -22.1 | -21.2 | -20.9 |
| - Consensus EPS (A$) | n.a. | n.a. | 0.26 | 0.30 | 0.29 |
| EPS growth (%) | (36.1) | (1.2) | 20.9 | 20.9 | (21.0) |
| P/E (x) | 17.4 | 17.6 | 14.6 | 12.1 | 15.2 |
| Dividend yield (%) | 3.6 | 3.6 | 3.3 | 4.1 | 3.3 |
| EV/EBITDA (x) | 8.6 | 9.1 | 9.9 | 8.0 | 7.4 |
| P/B (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 |
| ROE (%) | 4.7 | 4.6 | 5.4 | 6.4 | 4.9 |
| Net debt(cash)/equity (%) | 1.3 | 7.4 | 12.6 | 10.8 | 9.3 |

*Note 1: ORD/ADR=1.00. Note 2: Treasury Wine Estates Ltd.Its engaged in international wine business with a portfolio of wines. Its business is structured into four regions: Australia and New Zealand (ANZ); Americas; Europe, Middle East and Africa (EMEA), and Asia Pacific.*

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### NTA valuation approach never held water with CS

The NTA valuation approach *does not* support a share price over A$4.00 or an equity value of A$2.7 bn.

(a) TWE's A$1.0 bn of PPE at book has a market value well below book value. Firstly, there is excess winery capacity around the world. In Australia, the third-largest winery was sold to The Wine Group in 2011 for an estimated mere A$30 mn. Secondly, used barrels have little value.

(b) Vineyard valuations were stretched to over A$1.0 bn vs book value of A$230 mn. TWE management conceded that such valuations were stretched in an analyst brief. Our review of the vineyards suggests about A$800 mn.

(c) A$1.1 bn wine inventory should be valued at book, not a multiple of book. Generally, unbranded wine inventory – especially commercial-grade wine – is worth less than book value. Aged luxury wine in barrels that cannot be sold under TWE's famous brands is unlikely to be worth much more than book value. Most of the luxury wine value is in the brand, not in the liquid. The purpose of an NTA approach is to ignore intangible brand value. A multiple of earnings approach or DCF can capture that value.

(d) FY14 net debt is estimated to blow out to A$380 mn from zero when TWE was first listed.

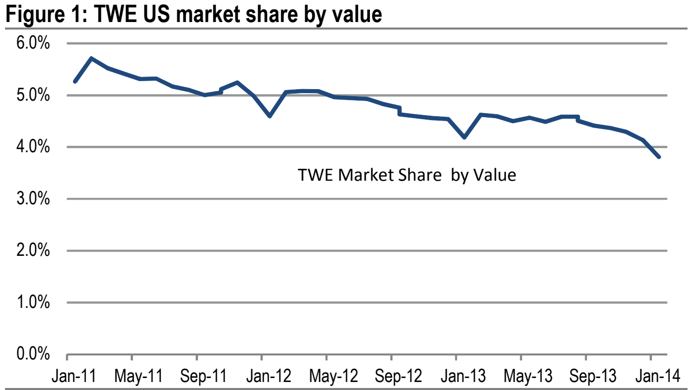
### Penfolds brand damaged in liquor trade, in our view; sum-of-the-parts valuation reduced

Our brand-based, sum-of-the-parts valuation has been reduced to A$3.25/share from A$3.75 on a lower Penfolds valuation. We reduced our Penfolds brand valuation by 20% or A$300 mn on less optimistic prospects for Asia. China austerity is a new order to reduce corruption. The gifting and banqueting market – where 95% of imported wine in China is consumed – is unlikely to grow at previous rates. We also believe that damage was done to the Penfolds brand as TWE disappointed liquor retailers/wholesalers in North America and Australia by executing strong price increases – 40% on one line – and severely limiting allocations on the basis that the company can sell into infinite demand in Asia. TWE now acknowledges that China volumes have declined and it is widely believed that there is excess Penfolds inventory in China. We believe TWE will be unable to leverage the inferior 2011 Penfolds to drive its commercial volume as it did in 2H13 and in the Sep quarter of 2013.

Penfolds was previously estimated to generate around A$300 mn in sales and about A$150 mn of brand contribution (brand gross profit less brand marketing, no overhead allocation). These estimates may now have to be reviewed once new data becomes available.

Many advocate that TWE sell Beringer USA; we don't see it happening.

**Figure 1: TWE US market share by value**




Source: Nielsen

*This is an extract from the TWE report published on 30 January 2014. Please see CS's R&A website for more details.*

CREDIT SUISSE

**Hong Kong**

# Sands China ------------------------------------------------------------------- Maintain OUTPERFORM

**Improvement in Cotai Central to continue driving growth in 2014** **EPS: ▲ TP: ◄►**

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- Sands China's property EBITDA grew 34% YoY to a quarterly record of US$836 mn in 4Q13, in line with consensus estimates. On a luck-adjusted basis, the property EBITDA should have been 6% higher at US$888 mn (+56% YoY).
- Property EBITDA of Cotai Central inflated 120% YoY to US$238 mn in 4Q13. We expect the under-utilised Cotai Central to continue to grow its mass-market table daily win by 60% YoY to US$18,400 and property EBITDA by 67% YoY in 2014.
- Sands China sees strong operating cash flow, with many liquefiable assets. Management revealed that it has the financial flexibility to distribute all its EBITDA to shareholders. It intends to increase the dividend in 2014.
- After the two-year valuation premium contraction, we believe Sands China is at the inflexion point to turn around its underperformance trend. Amid recent market volatility, we believe that HK$56.5 (12.6x 2015E EV/EBITDA, or its average valuation since 2010) is a good entry price for it.

| Bbg/RIC | 1928 HK / 1928.HK | Price (29 Jan 14 , HK$) | | | 58.40 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP HK$) | | | 78.20 (78.20) |
| Shares outstanding (mn) | 8,063.19 | Est. pot. % chg. to TP | | | 34 |
| Daily trad vol - 6m avg (mn) | 11.6 | 52-wk range (HK$) | | | 66.1 - 34.2 |
| Daily trad val - 6m avg (US$ mn) | 81.8 | Mkt cap (HK$/US$ bn) | | | 470.9/ 60.7 |
| Free float (%) | 29.8 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Las Vegas Sands | Absolute (%) | (7.8) | 4.1 | 49.7 |
| | (70.22%) | Relative (%) | (2.8) | 8.9 | 56.8 |

| Year | 12/12A | 12/13A | 12/14E | 12/15E | 12/16E |
|---|---|---|---|---|---|
| Revenue (US$ mn) | 6,511 | 8,914 | 11,079 | 13,022 | 14,693 |
| EBITDA (US$ mn) | 1,935 | 2,854 | 3,731 | 4,640 | 5,054 |
| Net profit (US$ mn) | 1,236 | 2,215 | 3,035 | 3,791 | 4,060 |
| EPS (US$) | 0.15 | 0.27 | 0.38 | 0.47 | 0.50 |
| - Change from prev. EPS (%) | n.a. | n.a. | 2 | 1 | |
| - Consensus EPS (US$) | n.a. | n.a. | 0.38 | 0.45 | 0.54 |
| EPS growth (%) | 9.0 | 79.3 | 36.9 | 24.9 | 6.8 |
| P/E (x) | 49.0 | 27.4 | 20.0 | 16.0 | 15.0 |
| Dividend yield (%) | 2.3 | 4.1 | 5.0 | 6.2 | 6.7 |
| EV/EBITDA (x) | 32.0 | 21.7 | 16.5 | 13.5 | 12.3 |
| P/B (x) | 10.8 | 11.3 | 10.0 | 9.4 | 9.2 |
| ROE (%) | 22.3 | 40.5 | 53.0 | 60.4 | 62.2 |
| Net debt(cash)/equity (%) | 23.4 | 26.5 | 17.7 | 28.4 | 22.4 |

*Note 1: ORD/ADR=10.00. Note 2: Sands China Ltd. (Sands China) is a developer, owner and operator of integrated resorts and casinos in Macau. The integrated resorts in Macau contain not only gaming areas but also meeting space, convention and exhibition.*

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### Record EBITDA in 4Q13, driven by Cotai Central

According to the operating results from the parent Las Vegas Sands, Sands China's property EBITDA grew 34% YoY to a quarterly record of US$836 mn in 4Q13, in line with consensus estimates. On a luck-adjusted basis, the property EBITDA should have been 6% higher at US$888 mn (+56% YoY).

### Cotai Central sees plenty of room for improvement

Property EBITDA of Cotai Central inflated 120% YoY to US$238 mn, backed by the 60% increase in gross gaming revenue (GGR) in 4Q13. The mass-market table daily win grew 113% YoY to US$14,000. With the most hotel rooms in Cotai Strip to accommodate visitor growth, we expect the under-utilised Cotai Central to continue to grow its mass-market table daily win by 60% YoY to US$18,400 and property EBITDA by 67% YoY in 2014E.

**Figure 1: Sands China's 4Q13 property EBITDA**

| Sands Macao (US$ mn) | 4Q13 | 4Q12 | YoY % chg. | 3Q13 | QoQ % chg. |
|---|---|---|---|---|---|
| - Mass-market | 190 | 157 | 20.6 | 172 | 10.3 |
| - High-roller | 161 | 190 | -15.2 | 154 | 4.7 |
| - Slots | 26 | 26 | 1.5 | 26 | 2.6 |
| **GGR** | **377** | **373** | **1.1** | **352** | **7.3** |
| Non-gaming revenue | 20 | 19 | 1.6 | 19 | 3.7 |
| **EBITDA** | **88** | **92** | **-3.8** | **90** | **-2.1** |
| **Venetian Macao (US$ mn)** | **4Q13** | **4Q12** | **YoY % chg** | **3Q13** | **QoQ % chg** |
| - Mass-market | 572 | 363 | 57.3 | 479 | 19.3 |
| - High-roller | 556 | 412 | 35.2 | 429 | 29.8 |
| - Slots | 67 | 71 | -5.3 | 65 | 3.3 |
| **GGR** | **1195** | **846** | **41.3** | **973** | **22.8** |
| Non-gaming revenue | 187 | 153 | 22.1 | 150 | 24.8 |
| **EBITDA** | **433** | **333** | **30.1** | **357** | **21.3** |
| **The Plaza (US$ mn)** | **4Q13** | **4Q12** | **YoY % chg** | **3Q13** | **QoQ % chg** |
| - Mass-market | 74 | 57 | 31.5 | 77 | -3.4 |
| - High-roller | 166 | 288 | -42.1 | 301 | -44.7 |
| - Slots | 14 | 19 | -22.6 | 15 | -2.6 |
| **GGR** | **255** | **363** | **-29.6** | **393** | **-35.0** |
| Non-gaming revenue | 69 | 48 | 44.4 | 53 | 31.2 |
| **EBITDA** | **77** | **90** | **-14.4** | **113** | **-32.0** |
| **Cotai Central (US$ mn)** | **4Q13** | **4Q12** | **YoY % chg** | **3Q13** | **QoQ % chg** |
| - Mass-market | 382 | 192 | 98.6 | 334 | 14.1 |
| - High-roller | 443 | 318 | 39.1 | 421 | 5.0 |
| - Slots | 66 | 46 | 44.6 | 60 | 11.0 |
| **GGR** | **891** | **556** | **60.1** | **816** | **9.2** |
| Non-gaming revenue | 128 | 78 | 64.9 | 113 | 13.4 |
| **EBITDA** | **238** | **108** | **120.2** | **224** | **6.0** |
| | **4Q13** | **4Q12** | **YoY % chg** | **3Q13** | **QoQ % chg** |
| **Overall GGR (US$ mn)** | **2,718** | **2,138** | **27.1** | **2,533** | **7.3** |
| Non-gaming revenue | 403 | 297 | 35.5 | 334 | 20.8 |
| **Property EBITDA** | **836** | **622** | **34.3** | **784** | **6.6** |

Source: Company data, Credit Suisse estimates

### Strong cash flow, more dividend

Sands China sees strong operating cash flow, with many liquefiable assets, such as retail malls and service apartments at the Four Seasons. Management revealed that it has the financial flexibility to distribute all its EBITDA to the shareholders. It increased the interim dividend by 30% YoY to HK$0.87, with a special dividend of HK$0.77 for 2013. Given the anticipated growth and strong cash flow, Sands China intends to increase the dividend in 2014.

### At inflexion point to turn around underperformance trend

We increase our 2014-15 earnings forecasts by 1-2% by fine-tuning our margin assumptions. After the two-year valuation premium contraction, it is now trading at par with the sector average valuation. We believe that it is at the inflexion point to turn around its underperformance trend. Amid the recent market volatility, we believe HK$56.5 (12.6x 2015E EV/EBITDA, or its average valuation since 2010) is a good entry price for Sands China.

India

# Adani Enterprises Ltd. ----------------------------------------------- Maintain UNDERPERFORM

**3Q14 below estimates; trading volumes and margins witness sharp decline** **EPS: ▼ TP: ▼**

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- Adjusting for Rs185 mn of net forex gain, ADE's 3Q14 recurring PAT at Rs867 mn was significantly below estimates. Trading volumes at 10.5 MT in 3Q14 declined 36% YoY on account of lower stock and sale coal volumes, and lower imported coal procurement by NTPC.
- Coal trading EBITDA margin at US$4.4/t declined 38% YoY due to: (1) hedging cost incurred on coal LCs, (2) one-time provision of Rs600-800 mn made for coal supplies to NTPC, and (3) profitability getting impacted on 1.2-1.3 MT of fixed price contracts due to increase in sea freight charges.
- Clearances are being pursued in Australia and expected by 2Q CY14 (CS est. CY14 end). On MDO contracts, Parsa Kente block has sold 0.6 MT in 9M FY14 and 2-3 MT production expected in FY15. Machhakata mine's approvals are pending with MoEF.
- Led by lowering of trading volume and margin assumptions for FY14, we cut our FY14 EPS estimate by 21%. Owing to continued stress in power business, and leverage expected to remain high, we maintain UNDERPERFORM with a revised TP of Rs196.

| Bbg/RIC | ADE IN / ADEL.BO | Price (31 Jan 14 , Rs) | | | 238.15 |
|---|---|---|---|---|---|
| Rating (prev. rating) | U (U) [V] | TP (prev. TP Rs) | | | 196.00 (198.00) |
| Shares outstanding (mn) | 1,099.81 | Est. pot. % chg. to TP | | | (18) |
| Daily trad vol - 6m avg (mn) | 2.6 | 52-wk range (Rs) | | | 278.6 - 133.0 |
| Daily trad val - 6m avg (US$ mn) | 8.7 | Mkt cap (Rs/US$ bn) | | | 261.9/ 4.2 |
| Free float (%) | 25.0 | Performance | 1M | 3M | 12M |
| Major shareholders | Promoters (75%) | Absolute (%) | (11.4) | 16.7 | (4.7) |
| | | Relative (%) | (8.4) | 19.9 | (7.8) |

| Year | 03/12A | 03/13A | 03/14E | 03/15E | 03/16E |
|---|---|---|---|---|---|
| EBITDA (Rs mn) | 49,978 | 63,015 | 94,838 | 112,845 | 131,447 |
| Net profit (Rs mn) | 18,296 | 10,077 | 12,059 | 20,597 | 31,183 |
| EPS (Rs) | 16.6 | 9.2 | 11.0 | 18.7 | 28.4 |
| Core EPS (Rs) | 16.6 | 9.2 | 11.0 | 18.7 | 28.4 |
| - Change from prev. EPS (%) | n.a. | n.a. | (21) | (1) | 0 |
| - Consensus EPS (Rs) | n.a. | n.a. | 11.1 | 24.6 | 38.0 |
| EPS growth (%) | (22.3) | (44.9) | 19.7 | 70.8 | 51.4 |
| P/E (x) | 14.3 | 26.0 | 21.7 | 12.7 | 8.4 |
| Core P/E (x) | 14.3 | 26.0 | 21.7 | 12.7 | 8.4 |
| Dividend yield (%) | 0.4 | 0.6 | 0 | 0.5 | 0 |
| EV/EBITDA (x) | 17.8 | 14.0 | 10.0 | 8.5 | 7.6 |
| P/B (x) | 1.3 | 1.2 | 1.2 | 1.1 | 1.0 |
| ROE (%) | 9.8 | 4.9 | 5.6 | 9.3 | 12.6 |
| Net debt(cash)/equity (%) | 273.9 | 251.9 | 284.5 | 265.8 | 253.0 |

*Note 1: Adani Enterprises Ltd is an India-based company. The company is engaged in 4 business sectors: energy, trading, real estate & agro-related businesses. It operates from more than 30 offices in India & abroad.*

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**Figure 1: ADE coal trading business performance summary**

| | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | YoY (%) |
|---|---|---|---|---|---|---|
| Trading volumes (MT) | 16.5 | 12.4 | 9.5 | 11.0 | 10.5 | -36% |
| Coal realisation (Rs/t) | 4,008 | 4,149 | 4,829 | 5,322 | 4,620 | 15% |
| Coal trading EBITDA (Rs/t) | 382 | 339 | 400 | 360 | 272 | -29% |
| Coal trading EBITDA (US$/t) | 7.1 | 6.2 | 7.2 | 5.8 | 4.4 | -38% |

Source: Company data, Credit Suisse estimates.

### 3Q14 results disappoint; trading margins decline further

Adjusting for Rs185 mn of net forex/derivatives gain, Adani Enterprises' 3Q14 recurring PAT at Rs867 mn was significantly below estimates led by 27% YoY decline in trading revenue and 630 bp YoY fall in trading EBIT margin to 2.2%, and lower other income. Management indicated that trading volumes at 10.5 MT in 3Q14 declined 36% YoY mainly on account of lower stock and sale coal volumes, and lower imported coal procurement by NTPC.

Coal trading EBITDA margin at US$4.4/t declined 38% YoY due to: (1) hedging cost incurred on coal LCs, (2) one-time provision of Rs600-800 mn made for coal supplies to NTPC, and (3) profitability getting impacted on 1.2-1.3 MT of fixed price contracts due to increase in sea freight charges.

**Figure 2: ADE—3Q14 consolidated results summary**

| (Rs mn) | 3Q13 | 3Q14 | % YoY | 3Q14E | % diff. |
|---|---|---|---|---|---|
| Net sales | 136,492 | 137,468 | 1% | 144,252 | -5% |
| Total expenditure | 116,116 | 116,845 | 1% | 123,232 | -5% |
| **EBITDA** | **20,376** | **20,623** | **1%** | **21,019** | **-2%** |
| EBITDA margin (%) | 14.9% | 15.0% | 7 | 14.6% | 43 |
| Depreciation | 6,486 | 8,333 | 28% | 8,952 | -7% |
| Net interest expense | 8,861 | 10,070 | 14% | 8,436 | 19% |
| Taxes | 1,601 | 1,862 | 16% | 1,525 | 22% |
| Minority interest | (1,870) | (509) | -73% | (563) | -10% |
| **Recurring profit** | **5,298** | **867** | **-84%** | **2,669** | **-68%** |
| Exceptional income | (1,137) | (185) | n.a. | - | n.a. |
| **Reported profit** | **4,161** | **682** | **-84%** | **2,669** | **-74%** |

Source: Company data, Credit Suisse estimates.

### Australian capex plans continue to get pushed out

Management indicated that clearances are being pursued in Australia for mine and rail project. Supplementary EIS (Environmental Impact Statement) has been submitted, public scrutiny is ongoing and final approvals are expected by 2Q CY14. However, we expect clearances to face delays and not materialise until CY14 end. We currently build in coal production commencing from FY18/19 and the project contributes negative Rs37/share to our SoTP for ADE.

On MDO contracts, Parsa Kente block has sold 0.6 MT in 9M FY14 and 2-3 MT production expected in FY15. Machhakata mine's approvals are pending with MoEF.

Led by lowering of trading volume and margin assumptions for FY14, we cut our FY14 EPS estimate by 21% and maintain UNDERPERFORM with a revised TP of Rs196.

**Figure 3: ADE—consolidated segmental performance summary**

| (Rs mn) | 3Q13 | 3Q14 | % YoY | 1Q14 | QoQ (%) |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Trading | 65,964 | 48,469 | -27% | 45,876 | 6% |
| Power | 18,974 | 41,970 | 121% | 25,672 | 63% |
| Port | 11,006 | 7,372 | -33% | 12,772 | -42% |
| Agro | 23,331 | 27,772 | 19% | 19,946 | 39% |
| Others | 17,218 | 11,884 | -31% | 11,201 | 6% |
| **EBIT margin** | | | | | |
| Trading | 8.5% | 2.2% | (630) | 3.3% | (112) |
| Power | -7.0% | 9.6% | 1,661 | -3.3% | 1,286 |
| Port | 67.0% | 69.1% | 216 | 60.8% | 832 |
| Agro | 2.9% | 1.7% | (120) | 3.8% | (209) |
| Others | 2.5% | -0.2% | (273) | 6.6% | (678) |

Source: Company data, Credit Suisse estimates.

## Grasim ---------------------------------------------------------------------------- Maintain OUTPERFORM

**Holding company discount to narrow driven by Chinese anti-dumping duty** **EPS: ▼ TP: ▼**

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- The implied holding company discount for Grasim (for the cement business) currently is at ~50% as: (1) global VSF utilisation is low at ~75% and (2) pulp prices are low, negating the advantage of vertical integration with Grasim. However, we expect the discount to narrow as pulp prices rise with anti-dumping duty being imposed by China.
- China announced preliminary anti-dumping duties (7-51%) on pulp producers from the US, Canada and Brazil. As pulp is 50% of VSF cost, it increases the VSF cost curve. Duties impact >50% of China's pulp imports and increases cost by US$100-150/t. Since duties were announced, pulp price rose US$40/t and once duties are finalised, the impact should be higher. VSF prices could increase by 4-5%.
- However, we do not expect a strong recovery in VSF as overhang of high cotton inventory in China continues. USDA expects China to account for 60% of global cotton inventory in 2014 versus 56% currently and global inventory level at 84% of annual consumption.
- Grasim's Dec-13 quarter EBITDA missed by 8% due to high pulp cost. We cut our FY14/15 EPS by 16/28% to reflect EPS cut for Ultratech and our TP for Grasim reduces by 10% to Rs2,940.

| Bbg/RIC | GRASIM IN / GRAS.BO | Price (31 Jan 14 , Rs) | | | 2,573.85 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP Rs) | | | 2,940 (3,280) |
| Shares outstanding (mn) | 91.82 | Est. pot. % chg. to TP | | | 14 |
| Daily trad vol - 6m avg (mn) | 0.1 | 52-wk range (Rs) | | | 3124.6 - 2171.5 |
| Daily trad val - 6m avg (US$ mn) | 3.6 | Mkt cap (Rs/US$ bn) | | | 236.3/ 3.8 |
| Free float (%) | 74.7 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Promoter: 25.3% | Absolute (%) | (2.2) | (8.0) | (14.4) |
| | | Relative (%) | (0.6) | (4.6) | (18.1) |

| Year | 03/12A | 03/13A | 03/14E | 03/15E | 03/16E |
|---|---|---|---|---|---|
| EBITDA (Rs mn) | 53,184 | 56,590 | 45,099 | 58,411 | 68,808 |
| Net profit (Rs mn) | 23,798 | 27,044 | 20,660 | 22,920 | 28,254 |
| EPS (Rs) | 259 | 295 | 225 | 250 | 308 |
| Core EPS (Rs) | 259 | 295 | 225 | 250 | 308 |
| - Change from prev. EPS (%) | n.a. | n.a. | (16) | (28) | |
| - Consensus EPS (Rs) | n.a. | n.a. | 262 | 299 | 348 |
| EPS growth (%) | 25.5 | 13.6 | (23.5) | 10.9 | 23.3 |
| P/E (x) | 9.9 | 8.7 | 11.4 | 10.3 | 8.4 |
| Core P/E (x) | 9.9 | 8.7 | 11.4 | 10.3 | 8.4 |
| Dividend yield (%) | 1.1 | 0.9 | 1.0 | 1.0 | 0 |
| EV/EBITDA (x) | 4.8 | 4.9 | 6.3 | 4.9 | 4.5 |
| P/B (x) | 1.4 | 1.2 | 1.1 | 1.0 | 1.0 |
| ROE (%) | 15.0 | 14.7 | 10.1 | 10.3 | 12.0 |
| Net debt(cash)/equity (%) | 7.6 | 16.1 | 17.2 | 16.6 | 22.2 |

*Note 1: m is a conglomerate and primarily involved in cement (through Ultratech) and Viscose Staple Fibre.*

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### Chinese anti-dumping duty to support VSF prices

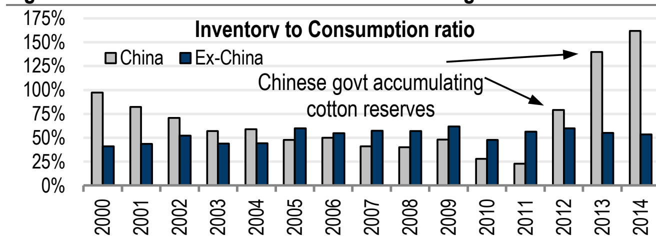
The Chinese Ministry of Commerce announced preliminary anti-dumping duties ranging from 7-51% on Dissolving wood pulp (DWP) producers from the US, Canada and Brazil. DWP accounts for 45-50% of VSF production cost and China produces 55-60% of global VSF. Therefore, dumping duty on DWP raises VSF cost curve (Chinese players are marginal players) and is an advantage to vertically-integrated producer such as Grasim (80% vertically integrated on DWP).

The final set of duties will be announced in Feb-2014 and that will determine whether some of the capacities which were planning to shift from paper grade pulp to VSF grade pulp change their decision (such as Jari's DWP capacity in Brazil, Paper Excellence capacity, Fortress' Thurso mill in Quebec etc). Anti-dumping duties impact >50% of China's DWP imports. The net impact of the duties is an increase in DWP cost by $100-150/t. As one unit of VSF requires one unit of DWP, this could raise VSF prices by 5-6%. Post the announcement of duties, DWP prices in China have moved up from $860/t to $900/t and once the final duties are announced, increase in DWP prices could be higher.

### High cotton inventories continue to cap VSF prices

Cotton inventory continues to rise and Jan USDA report expects 2014 inventories at 89% of annual consumption vs. 84% in 2013 (global cotton production for 2014 is expected at 25.6mt). 60% of global cotton inventory is expected in China (vs. 56% currently). Therefore, the pace of inventory disposal by Chinese government will influence cotton and VSF prices. We expect an orderly replenishment of the inventory but the scale of inventory will continue to pressurise VSF.

**Figure 1: Chinese cotton inventories further rising**




Source: USDA, Credit Suisse research

### Grasim's Dec-13 quarter impacted by high DWP cost

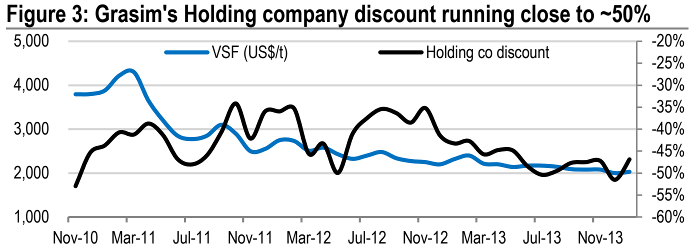
Grasim's Dec-13 quarter EBITDA missed by 8% with most of the miss being led by VSF division. The surprise on VSF was driven by high DWP cost which was impacted by higher NBSK index and impact of currency depreciation. Cost pressure from DWP is expected to continue and profitability improvement should be driven by VSF price increase.

**Figure 2: Dec-13 quarter impacted by high DWP cost**

| | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | Q/Q | Y/Y |
|---|---|---|---|---|---|---|---|
| VSF volumes (kt) | 78.6 | 95.2 | 77.5 | 93.0 | 97.0 | 4% | 24% |
| VSF ASP (Rs/t) | 131,078 | 127,821 | 126,391 | 130,159 | 128,803 | -1% | -2% |
| VSF cost (Rs/t) | 107,153 | 105,123 | 102,268 | 104,359 | 111,389 | 7% | 4% |
| **VSF EBITDA (Rs/t)** | **23,925** | **22,698** | **24,123** | **25,800** | **17,414** | **-33%** | **-27%** |
| **EBITDA (Rs mn)** | **2,154** | **2,141** | **2,024** | **2,613** | **1,945** | **-26%** | **-10%** |
| Dep (Rs mn) | 395 | 451 | 484 | 530 | 547 | 3% | 38% |
| Interest cost (Rs mn) | 107 | 145 | 78 | 95 | 134 | 41% | 25% |
| PBT (Rs mn) | 2,603 | 2,770 | 2,420 | 2,950 | 1,757 | -40% | -33% |

Source: Company data, Credit Suisse estimates.

**Figure 3: Grasim's Holding company discount running close to ~50%**




Source: Bloomberg, Credit Suisse estimates.

# Hero Motocorp Ltd---------------------------------------------------- Maintain UNDERPERFORM

## Disappointing quarter on margin miss

**EPS: ▼ TP: ▲**

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- Results were below expectations with earnings growth of ~8% YoY (vs expectation of ~28%). Hero reported a big disappointment on margins, which contracted 150 bp QoQ, despite positive operating leverage at play and a 70 bp benefit from cost-reduction efforts.
- The margin miss was led by both higher raw material expenses and higher other expenses. Gross margins declined 120 bp QoQ due to a lagged impact of adverse FX in 2Q. Other expenditure was higher due to lumpiness of publicity spends in 3Q, higher royalty payments on the new products and higher freight expenses.
- Management commented that post a decent festival season, things have again slowed. Inventory levels across industry are on the high side at six-seven weeks; it guided for 5% industry growth in 4Q.
- Hero's margins (adjusted for royalty) have fallen 600 bp since FY10, indicating a difficult pricing environment in the industry. Honda has not participated in the price increases taken by all other manufacturers in Oct/Nov. Given the market share situation is also yet to stabilise, we maintain our UNDERPERFORM and cut our estimates by 3-4% to account for the quarter's miss; our TP changes to Rs1,930.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **HMCL IN / HROM.BO** | **Price (30 Jan 14, Rs)** | | | **1,999.75** |
| **Rating (prev. rating)** | **U (U)** | **TP (prev. TP Rs)** | | | **1,930 (1,900)** |
| Shares outstanding (mn) | 199.69 | Est. pot. % chg. to TP | | | (3) |
| Daily trad vol - 6m avg (mn) | 0.4 | 52-wk range (Rs) | | | 2203.1 - 1437.3 |
| Daily trad val - 6m avg (US$ mn) | 12.4 | Mkt cap (Rs/US$ bn) | | | 399.3/ 6.4 |
| Free float (%) | 47.8 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Brijmohan Munjal Family | Absolute (%) | (3.6) | (4.8) | 11.1 |
| | | Relative (%) | (0.4) | (1.5) | 8.6 |

| **Year** | **03/12A** | **03/13A** | **03/14E** | **03/15E** | **03/16E** |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 235,790 | 237,681 | 252,001 | 278,734 | 305,683 |
| EBITDA (Rs mn) | 36,188 | 32,845 | 35,469 | 40,232 | 44,676 |
| Net profit (Rs mn) | 23,781 | 21,182 | 21,125 | 28,629 | 33,215 |
| EPS (Rs) | 119 | 106 | 106 | 143 | 166 |
| - Change from prev. EPS (%) | n.a. | n.a. | (4) | (3) | (2) |
| - Consensus EPS (Rs) | n.a. | n.a. | 108 | 143 | 167 |
| EPS growth (%) | 23.4 | (10.9) | (0.3) | 35.5 | 16.0 |
| P/E (x) | 16.8 | 18.9 | 18.9 | 13.9 | 12.0 |
| Dividend yield (%) | 2.3 | 3.0 | 2.6 | 3.6 | 4.2 |
| EV/EBITDA (x) | 10.1 | 11.2 | 10.3 | 8.8 | 7.5 |
| P/B (x) | 9.3 | 8.0 | 6.8 | 5.6 | 4.7 |
| ROE (%) | 65.6 | 45.6 | 38.8 | 44.1 | 42.7 |
| Net debt(cash)/equity (%) | (78.5) | (63.7) | (59.3) | (61.6) | (73.7) |

*Note 1: Hero Motocorp Ltd. (formerly Hero Honda) is the largest two-wheeler manufacturer in India with ~50% market share and annual sales of over 6 mn units. The company is engaged in manufacturing of motorcycles, scooters across three manufacturing facilities.*

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**Margin miss leads to results disappointment:** Gross margins declined 120 bp QoQ, primarily on adverse FX. The company partially compensated its vendors with a quarter's lag for FX losses, hence the big INR depreciation in 2Q had an impact. Net import exposure was 12.5% of sales (half of it was direct—alloy wheel imports, which are USD denominated) and half of it was indirect (vendor imports, which are in JPY).

Other expenses rose on different factors—publicity expenses were skewed in 3Q because of the festival season, freight expenses went up as the diesel price hike was passed on to transport operators and royalty on new products—primarily "Mastero" (sales of new products on which Hero pays extra royalty moved from 190,000 last year to 550,000 units).

**Continues to target big margin savings:** The second phase of its cost-reduction plan (which is being carried out in five phases) has now started. In Phase 1, the focus was on logistics, vendor consolidation, e-bidding of components and product rationalisation. This resulted in Rs450 mn in savings (~70 bp) in 3Q and should gradually increase each quarter. The company expects margins to increase 300 bp by FY17 from the current 13-14% range from these endeavours.

We remain sceptical of such a sizeable margin improvement. In our view, almost all auto companies work on some or the other cost-reduction programmes and part of it always gets passed on to the customer in terms of lower price increases than what is warranted by the cost increases. From FY10, Hero's margins (adjusted for royalty) have fallen 600 bp, indicating the loss in pricing power in the industry with Honda's aggressiveness. While all other players had taken a price hike in Oct-13 to pass on the rise in input costs, Honda didn't follow them—again showing its readiness to compete on price in order to gain share.

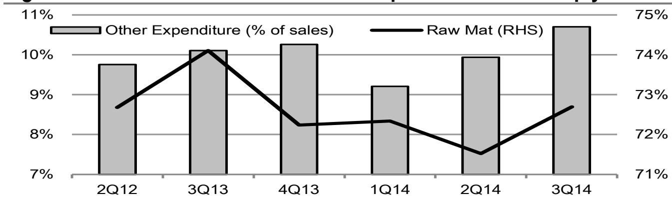
**Others:** Current capacity is 6.9 mn units per year and this should expand to 7.6 mn units from April once the new Rajasthan plant comes on stream, and will further increase in FY16 once the Gujarat plant comes (capacity of 1.8 mn units). Capex for the current year should be about Rs12 bn, and it will likely be higher for FY15 at about Rs15 bn, given the large capacity increase, and should moderate post that. Current scooter capacity is 60,000 per month which is being ramped up to 75,000 per month given the full utilisation.

**Figure 1: Hero Motocorp—3Q results summary**

| **(Rs mn)** | **3Q13A** | **2Q14A** | **3Q14A** | **% YoY** | **% QoQ** |
|---|---|---|---|---|---|
| Volumes (units) | 1,573,135 | 1,416,211 | 1,680,940 | 6.9 | 18.7 |
| **Net sales** | **61,876** | **57,262** | **68,768** | **11.1** | **20.1** |
| Raw material | 45,854 | 40,955 | 49,989 | 9.0 | 22.1 |
| *Raw mat/sales* | *74.1* | *71.5* | *72.7* | *-141 bps* | *117 bps* |
| Employee costs | 1,982 | 2,290 | 2,439 | 23.0 | 6.5 |
| Other expenditure | 6,253 | 5,690 | 7,360 | 17.7 | 29.4 |
| **EBIDTA** | **7,787** | **8,327** | **8,979** | **15.3** | **7.8** |
| *EBIDTA margin* | *12.6* | *14.5* | *13.1* | *47 bps* | *-148 bps* |
| Depreciation | 2,832 | 2,869 | 2,732 | (3.5) | (4.8) |
| Interest | 30 | 30 | 30 | 0.7 | 0.7 |
| Other income | 901 | 1,155 | 956 | 6.1 | (17.2) |
| PBT | 5,826 | 6,583 | 7,173 | 23.1 | 9.0 |
| Tax | 949 | 1,769 | 1,928 | 103.2 | 9.0 |
| *Tax Rate* | *16* | *27* | *27* | *1,059 bps* | *0 bps* |
| **Reported PAT** | **4,877** | **4,814** | **5,245** | **7.6** | **9.0** |

Source: Company data, Credit Suisse estimates

**Figure 2: Both raw materials and other expenditure rose sharply**




Source: Company data, Credit Suisse estimates

# Indian Overseas Bank ------------------------------------------------ Maintain UNDERPERFORM

## 3QFY14: Asset quality pressure still elevated; capital requirements significant

EPS: ▼ TP: ▼

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- IOB's 3Q FY14 net profits were down 36% YoY (24% below estimates) as credit cost remained quite high (~1.9% vs 1.5% for 2Q) on continued elevated problem asset addition (~5.7% annualised). Pre-prov profit declined as well (-3% YoY) on lower NIMs (down 13bp QoQ) and weak core non-int income (-8% YoY).
- Loan growth moderated to 10% YoY, and with NIMs under further pressure, NII was flat on YoY basis. Pullback in opex (down 10% QoQ) helped maintain cost income at ~49% despite weak topline.
- Asset quality deteriorated further with Gross NPA up a further 50 bp QoQ (to 5.2%). Including restructuring (of Rs12 bn in 3Q), total impaired addition was a high 6% of loans (annualised). Credit cost was elevated at 1.9%, still NPL cover remained at a low of ~40%. Unprovided NPAs have reached 44% of networth.
- Despite the recent 25% equity dilution (Rs12 bn from GOI), it is still grossly under-capitalised with Tier-I at 7.5%. UNDERPERFORM for its 0.3x nominal book, unprovided problem loan at 145% of book & need for large capital injection. Cut 14/15/16E EPS by 6%/38%/31% on higher provisions; TP cut to Rs35 (from Rs63).

| | |
|---|---|
| **Bbg/RIC** | **IOB IN / IOBK.BO** |
| **Rating (prev. rating)** | **U (U)** |
| Shares outstanding (mn) | 1,153.85 |
| Daily trad vol - 6m avg (mn) | 1.4 |
| Daily trad val - 6m avg (US$ mn) | 1.1 |
| Free float (%) | 35.0 |
| Major shareholders | LIC, HDFC Standard Life |

| | | | |
|---|---|---|---|
| **Price (30 Jan 14 , Rs)** | | | **42.90** |
| **TP (prev. TP Rs)** | | | **35.00 (63.00)** |
| Est. pot. % chg. to TP | | | (18) |
| 52-wk range (Rs) | | | 80.9 - 38.5 |
| Mkt cap (Rs/US$ mn) | | | 49,500.1/ 791.2 |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute (%) | (17.7) | (17.4) | (47.0) |
| Relative (%) | (14.6) | (14.1) | (50.0) |

| **Year** | **03/12A** | **03/13A** | **03/14E** | **03/15E** | **03/16E** |
|---|---|---|---|---|---|
| Pre-prov Op profit (Rs mn) | 35,691.3 | 38,853.6 | 38,885.3 | 44,359.7 | 50,845.4 |
| Net profit (Rs mn) | 10,851 | 6,356 | 6,134 | 9,499 | 14,227 |
| EPS (CS adj. Rs) | 15.3 | 7.4 | 5.9 | 8.2 | 12.3 |
| - Change from prev. EPS (%) | n.a. | n.a. | (6) | (38) | (31) |
| - Consensus EPS (Rs) | n.a. | n.a. | 6.25 | 7.13 | |
| EPS growth (%) | (20.8) | (51.8) | (20.1) | 39.5 | 49.8 |
| P/E (x) | 2.8 | 5.8 | 7.3 | 5.2 | 3.5 |
| Dividend yield (%) | 10.9 | 4.9 | 3.3 | 5.1 | 7.7 |
| BVPS (CS adj. Rs) | 135 | 133 | 121 | 127 | 135 |
| P/B (x) | 0.32 | 0.32 | 0.36 | 0.34 | 0.32 |
| ROE (%) | 11.5 | 5.5 | 4.7 | 6.7 | 9.4 |
| ROA (%) | 0.5 | 0.3 | 0.2 | 0.3 | 0.4 |
| Tier 1 Ratio (%) | 8.36 | 7.80 | 7.92 | 7.21 | 6.63 |

*Note 1: Indian Overseas Bank provides various banking services, including saving bank, current accounts, credit facilities and other services. The Bank's services also include personal banking services, non-residential Indian (NRI) accounts.*

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### Core profitability weak; problem assets rise

IOB reported its 3Q FY14 results, which were worse than expected with profits down 36% YoY (24% lower than estimates) and asset quality continuing to deteriorate. Loan growth was muted at 10% YoY as expected but with NIMs under further pressure (down 13 bp QoQ , net interest income was 7% lower than estimates, leading to a 6% decline in pre-prov profit even though the bank pulled back on opex (down 10% QoQ) with cost income stable at ~49%. Core non-int income growth (-8% YoY) has been weak for past several quarters. Pre-prov profitability of the banks continue to weaken significantly, inadequate to provide for elevated level of problem loan additions (Provisions at ~84% as a % of PPoP).

**Figure 1: 3Q14 results summary**

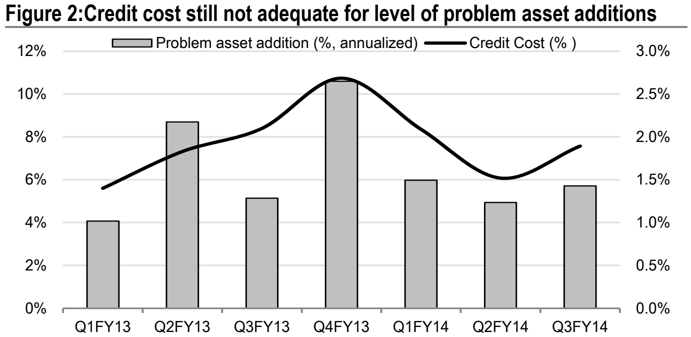
| **(Rs mn)** | **3Q14** | **2Q14** | **QoQ (%)** | **3Q13** | **YoY (%)** |
|---|---|---|---|---|---|
| **NII** | **13,981** | **14,518** | **-4%** | **13,816** | **1%** |
| Non-int income | 4,527 | 3,309 | 37% | 5,138 | -12% |
| Total income | 18,509 | 17,828 | 4% | 18,954 | -2% |
| Total opex | 8,901 | 9,917 | -10% | 8,783 | 1% |
| **Pre-prov profit** | **9,607** | **7,910** | **21%** | **10,171** | **-6%** |
| Total provisions | 8,112 | 6,199 | 31% | 8,110 | 0% |
| PBT | 1,495 | 1,711 | -13% | 2,061 | -27% |
| **Reported profit** | **751** | **1,326** | **-43%** | **1,165** | **-36%** |
| **Key parameters** | **3Q14** | **2Q14** | **QoQ (%)** | **3Q13** | **YoY (%)** |
| Deposits (Rs bn) | 2,133 | 2,127 | 0% | 1,856 | 15% |
| Net advances (Rs bn) | 1,741 | 1,713 | 2% | 1,576 | 10% |
| **NIM (%)** | **2.3%** | **2.4%** | **-13** | **2.5%** | **-25** |
| CASA (%) | 24.8% | 25.4% | -62 | 25.0% | -22 |
| Gross NPA (%) | 5.2% | 4.7% | 46 | 4.1% | 110 |
| Credit cost (%) | 1.7% | 1.5% | -152 | 2.1% | -210 |
| Coverage ratio (%) | 40.2% | 40.6% | -35 | 44.8% | -461 |
| **Restructured loans (%)** | **7.7%** | **7.7%** | **-766** | **9.9%** | **-990** |
| Tier I (%) | 7.48% | 7.02% | 0.46% | 7.33% | 0.15% |

Source: Company data, Credit Suisse estimates

### Unprovided problem loans now 145% of networth

Asset quality deteriorated further with Gross NPAs up a further 50 bp QoQ (to 5.2%). Including restructuring (of Rs12 bn in 3Q), total impaired addition was a high 6% of loans (annualised). Credit cost was elevated at 1.9%, still NPL cover remained at a low of ~40%. Total problem loans are at ~12% and unprovided NPAs have reached 44% of networth.

**Figure 2:Credit cost still not adequate for level of problem asset additions**




Source: Company data, Credit Suisse estimates

### Large dilution needed given low tier I, high under-provisioning

The bank despite the recent 25% equity dilution (Rs12bn capital infusion from government during the quarter), is still grossly under-capitalised with Tier-I at 7.5%. In order to reach 9% Tier-I capital, the bank would need further dilution of 31%. Despite its 0.3x nominal book, with unprovided problem loan at 145% of book and need for large capital injection, maintain UNDERPERFORM. We cut 14/15/16E EPS by 6%/38%/31% on weak core profitability and continued high impairments. Cut target price to Rs35 from Rs63.

## Infrastructure Development Finance Co Ltd------------------------ Maintain OUTPERFORM

**In a waiting mode** **EPS: ▼ TP: ▼**

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- IDFC's 3Q14 earnings rose 11% YoY, 2% ahead, tracking better-than-management guidance of 0-5% growth for full year, on the back of better fees (AMC & broking) and investment write-backs. Gross NPA moved up 30 bp QoQ to 0.6% of loans.
- Loan growth continued to be muted, though approvals were higher (+25% YoY) in 3Q on the back of an increase in short-term corporate exposure. Operating profit was flat YoY, while spreads (rolling) were down marginally to 2.3%. Fees picked up due to better AMC fees on benefit from closure of its new project's equity fund.
- Gross NPA moved up (0.6%) in line with management guidance and is expected to rise to 1.5% in next few quarters. Additionally, restructuring of 1-2% of loans book is also likely.
- IDFC remains in a consolidation mode given subdued infra activities and as it awaits bank license approval, loan growth is likely to be muted. We cut our EPS estimate by ~8% on lower growth and reduce our target price to Rs128. Clarity on transition structure on issuance of banking license will be the key catalyst. Its valuations are un-demanding at 0.8x book, 6.5x earnings. Maintain OUTPERFORM.

| | | | |
|---|---|---|---|
| **Bbg/RIC** | **IDFC IN / IDFC.BO** | **Price (31 Jan 14 , Rs)** | **93.15** |
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP Rs)** | **128.00 (144.00)** |
| Shares outstanding (mn) | 1,516.20 | Est. pot. % chg. to TP | 37 |
| Daily trad vol - 6m avg (mn) | 12.4 | 52-wk range (Rs) | 168.3 - 79.2 |
| Daily trad val - 6m avg (US$ mn) | 19.3 | Mkt cap (Rs/US$ bn) | 141.2/ 2.3 |
| Free float (%) | 79.0 | | |
| Major shareholders | GOI | | |

| **Performance** | **1M** | **3M** | **12M** |
|---|---|---|---|
| Absolute (%) | (11.1) | (18.1) | (44.6) |
| Relative (%) | (9.3) | (14.7) | (48.3) |

| **Year** | **03/12A** | **03/13A** | **03/14E** | **03/15E** | **03/16E** |
|---|---|---|---|---|---|
| Pre-prov Op profit (Rs mn) | 24,566.8 | 29,431.9 | 31,086.2 | 33,390.1 | 37,511.8 |
| Net profit (Rs mn) | 15,502 | 18,424 | 20,612 | 21,663 | 23,454 |
| EPS (CS adj. Rs) | 10.2 | 12.2 | 13.6 | 14.3 | 15.5 |
| - Change from prev. EPS (%) | n.a. | n.a. | 3 | (8) | |
| - Consensus EPS (Rs) | n.a. | n.a. | 12.9 | 14.2 | 15.9 |
| EPS growth (%) | 17.4 | 18.7 | 11.9 | 5.1 | 8.3 |
| P/E (x) | 9.1 | 7.7 | 6.8 | 6.5 | 6.0 |
| Dividend yield (%) | 2.9 | 3.3 | 4.1 | 4.7 | 4.7 |
| BVPS (CS adj. Rs) | 81 | 90 | 100 | 110 | 121 |
| P/B (x) | 1.15 | 1.03 | 0.93 | 0.85 | 0.77 |
| ROE (%) | 13.7 | 14.2 | 14.3 | 13.6 | 13.4 |
| ROA (%) | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Tier 1 Ratio (%) | — | — | — | — | — |

*Note 1: Infrastructure Development Finance Company Limited is an India-based company. The Company's main business is to provide finance for infrastructure projects including through ownership of infrastructure assets.*

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### Operationally in line

Approvals were higher (+25% YoY) driven by short-term corporate exposure in the telecom segment; however, disbursals remained subdued (-22% YoY). Mix of exposure continues to shift towards corporate exposure, contributing ~41% of total as of 3Q. Loan book was flat YoY tracking management guidance of 0-5% loan growth. Rolling spreads (12 months) declined marginally to 2.3%. Capital market related fee income (AMC and investment banking) showed healthy traction. IDFC has recently concluded its second project's equity fund and has launched real estate funds as well. This should further drive improved traction from alternative assets fee income. Opex was contained as well (-3% YoY) with cost income stable at ~16%.

### Gross NPLs likely to move up to 1.5%

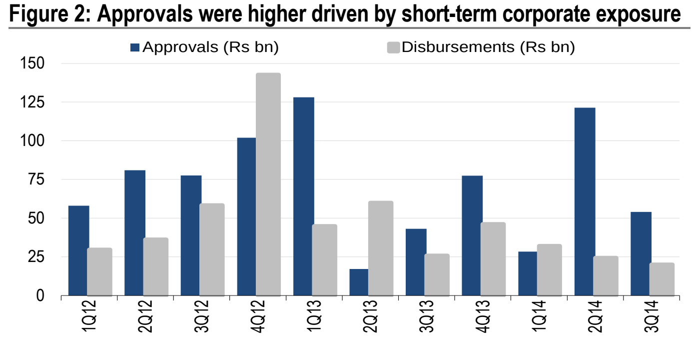
NPLs moved up 22 bp QoQ (to 0.6%) on certain infra related accounts turning NPAs. Management maintains its guidance for gross NPA to reach 1.5% in next few quarters. Management is awaiting more clarity on recent restructuring norms for NBFCs, which aims to bring parity in regulatory norms with banks. Currently, gas based projects (~3.5% of loans) are likely to be restructured. We expect ~1-2% of loans to be restructured in next few quarters. IDFC's existing loan loss reserve (of ~2% of loans) would party cushion the impact on earnings of these expected increase in impaired assets.

**Figure 1: 3Q14 results summary**

| **Rs mn** | **2Q14** | **2Q13** | **YoY (%)** | **1Q14** | **QoQ (%)** |
|---|---|---|---|---|---|
| **NII—Infrastructure** | **6,100** | **6,110** | **0%** | **6,420** | **-5%** |
| NII—Treasury | 540 | 480 | 13% | 440 | 23% |
| Total NII | 6,640 | 6,590 | 0.8% | 6,860 | -3% |
| Loan processing fees | 210 | 390 | -46% | 100 | 110% |
| Asset management fees | 1,020 | 870 | 17% | 1,040 | -2% |
| IDFC SSKI | 190 | 80 | 138% | 80 | 138% |
| **Total non-interest income** | **1,430** | **1,710** | **-16%** | **1,260** | **13%** |
| Total operating income | 8,070 | 8,300 | -3% | 8,120 | -1% |
| Total operating expenses | 1,315 | 1,340 | -2% | 1,375 | -4% |
| Pre-provisioning profits | 6,755 | 6,960 | -3% | 6,745 | 0% |
| Provisions & write offs | 365 | 520 | -30% | 501 | -27% |
| **Operating profits** | **6,390** | **6,440** | **-1%** | **6,245** | **2%** |
| Principal investment | 460 | 70 | 557% | 780 | -41% |
| PBT | 6,850 | 6,510 | 5% | 7,025 | -2% |
| **PAT** | **5,039** | **4,545** | **11%** | **4,926** | **2%** |
| Loans (Rs bn) | 536 | 533 | 0% | 550 | -3% |
| Gross disbursements | 20 | 26 | -22% | 24 | -18% |
| **Gross NPA (%)** | **0.64%** | **0.27%** | **0.37%** | **0.33%** | **0.31%** |

Source: Company data, Credit Suisse estimates

**Figure 2: Approvals were higher driven by short-term corporate exposure**




Source: Company data, Credit Suisse estimates.

### Clarity on banking license could be a key catalyst

IDFC remains in a waiting mode given subdued infra activities. With uncertainties surrounding banking licenses and subsequent transition, IDFC is likely to continue to follow the path of consolidation. We cut our FY15 EPS estimate by ~8% on lower growth estimate. Clarity on transition structure on likely issuance of banking license could be the key catalyst. Valuations are un-demanding at 0.8x book, 6.5x earnings. We reduce our target price to Rs128 (versus Rs144 earlier) and maintain our OUTPERFORM rating on the stock.

# Marico Ltd ---------------------------------------------------------------------- Maintain OUTPERFORM

## 3QFY14: Volume growth weakness clouds earnings beat

EPS: ▲ TP: ◄►

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- Marico's 3QFY14 adjusted earnings grew 32% YoY, which was significantly ahead of estimates. The beat was driven by higher EBITDA margins in both India and international businesses.
- However, volume growth at only 3% YoY was very weak. Parachute rigids grew only 2% YoY, while overall coconut oils volume was flat, in an environment of rising loose oil prices, which should have normally helped growth. A part of the slowdown was contributed by multiple price changes in a short span of time which have destabilised the trade channel.
- International business grew 15% YoY helped by a 12% currency translation gain. Margins at 18.1% were the highest ever and will not be sustainable, in our view, as they were helped by a sharp drop in ad spends in Bangladesh. However, international margins should be higher YoY over the next couple of quarters due to a low base.
- Our FY14 estimates increase marginally, but we lower our FY15-16 estimates by ~4% to build in lower margins to factor in inflation in copra prices. The key trigger for the stock will be a recovery in volume growth. Maintain OUTPERFORM.

| **Bbg/RIC** | **MRCO IN / MRCO.BO** | **Price (31 Jan 14 , Rs)** | | | **214.45** |
|---|---|---|---|---|---|
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP Rs)** | | | **245.00 (245.00)** |
| Shares outstanding (mn) | 644.87 | Est. pot. % chg. to TP | | | 14 |
| Daily trad vol - 6m avg (mn) | 0.4 | 52-wk range (Rs) | | | 230.7 - 187.5 |
| Daily trad val - 6m avg (US$ mn) | 1.5 | Mkt cap (Rs/US$ bn) | | | 138.3/ 2.2 |
| Free float (%) | 40.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Promoter | Absolute (%) | (1.8) | 2.6 | (3.7) |
| | | Relative (%) | 1.2 | 5.8 | (6.9) |

| **Year** | **03/12A** | **03/13A** | **03/14E** | **03/15E** | **03/16E** |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 40,083 | 45,962 | 47,299 | 53,955 | 61,590 |
| EBITDA (Rs mn) | 4,844 | 6,258 | 7,319 | 8,076 | 9,211 |
| Net profit (Rs mn) | 3,189 | 3,627 | 4,897 | 5,559 | 6,568 |
| EPS (Rs) | 5.2 | 5.6 | 7.6 | 8.6 | 10.2 |
| - Change from prev. EPS (%) | n.a. | n.a. | 2 | (4) | (4) |
| - Consensus EPS (Rs) | n.a. | n.a. | 7.4 | 8.7 | 10.2 |
| EPS growth (%) | 25.4 | 8.5 | 35.0 | 13.5 | 18.1 |
| P/E (x) | 41.4 | 38.1 | 28.2 | 24.9 | 21.1 |
| Dividend yield (%) | 0.3 | 0.5 | 0.8 | 0.9 | 1.0 |
| EV/EBITDA (x) | 29.8 | 23.1 | 19.2 | 17.0 | 14.5 |
| P/B (x) | 11.5 | 7.0 | 5.9 | 5.0 | 4.3 |
| ROE (%) | 31.0 | 23.2 | 22.7 | 21.8 | 21.9 |
| Net debt(cash)/equity (%) | 54.8 | 30.5 | 9.7 | (3.8) | (15.7) |

*Note 1: Marico is a leading fast moving consumer goods company in India with market leadership in hair oils and edible oils. The company also draws over 30% of revenues from international markets.*

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**Volume growth pickup key to the stock, a high copra price environment should help:** The slippage in volume growth was driven by flat volumes for coconut oils. Management explained that the multiple price changes (one decrease and two increases) in a short span of four months has caused instability in the sales channel, and adversely impacted the pick-up of higher priced stocks post October by trade. With the pipeline being corrected, they expect growth to return for Parachute to over 5% levels. Also the high copra price environment tends to favour branded players as the premium over loose oil shrinks substantially. A recovery to 6-8% overall volume growth is key to the stock performing even if earnings growth trends remain strong.

**Figure 1: Marico 3QFY14 results**

| **MRCO Rs mn – FMCG business** | **3QFY13** | **3QFY14** | **% YoY** |
|---|---|---|---|
| **Net sales** | **10,850** | **11,984** | **10.4%** |
| **EBITDA** | **1,550** | **1,995** | **28.7%** |
| **EBITDA margin (%)** | **14.3** | **16.6** | **236 bp** |
| Interest | -120 | -73 | -39.1% |
| Depreciation | -160 | -207 | 29.4% |
| Other income | 130 | 204 | 56.8% |
| **PBT** | **1,400** | **1,918** | **37.0%** |
| Adj. Tax | -350 | -501 | NM |
| Tax rate (%) | 25.0 | 26.1 | 114 bp |
| **PAT before Minority** | **1,050** | **1,417** | **35.0%** |
| **PAT** | **1,030** | **1,354** | **31.4%** |
| **Cost Details** | **3QFY13** | **3QFY14** | **% YoY** |
| Raw Materials | 50.6 | 51.8 | 119 bp |
| Staff Costs | 5.5 | 5.7 | 14 bp |
| Advertisement | 14.0 | 11.2 | -282 bp |
| Other Expenses | 15.6 | 14.7 | -86 bp |

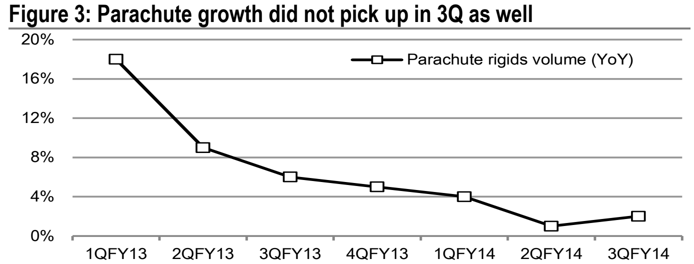
Source: Company data, Credit Suisse

**Figure 2: Segment wise growth**

| **Category** | **Growth (% YoY)** |
|---|---|
| India FMCG | Volume growth 3% |
| Parachute Rigids | Value 6%, Volume 2% |
| Value added oil | Value 16%, Volume 8% |
| Saffola | Value 7%, Volume 9% |
| Youth Brands | Value 13% |
| International | 15% in INR, 3% constant currency |
| Bangladesh | Decline of 14% |
| MENA | 10% (Egypt 22%) |
| South Africa | 5% |
| SE Asian | 24% |

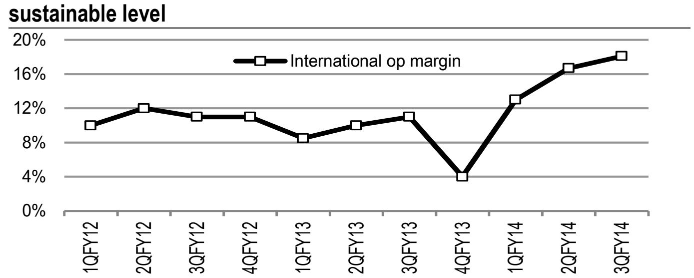
Source: Company data, Credit Suisse.

**Figure 3: Parachute growth did not pick up in 3Q as well**




Source: Company data, Credit Suisse.

**Figure 4: International margins expanded sharply, 14% is the sustainable level**




Source: Company data, Credit Suisse estimates.

## Maruti Suzuki India Ltd---------------------------------------------------- Maintain OUTPERFORM

**Intent seems fine; more specifics would have helped** EPS: ◄► TP: ◄►

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- Maruti conducted an analyst meet with its Chairman Mr. Bhargava explaining the rationale for Suzuki's decision to set up a 100% sub which would take care of Maruti's future manufacturing expansion.
- While Mr. Bhargava's mentioning that Suzuki wanted to set it up as a 100% subsidiary does raise some questions, his strong intent on protecting minority rights gives us comfort. He reiterated that at no point will the Suzuki subsidiary accumulate any cash.
- The specifics on how the second and third phases of expansion, where internal cash generation will not be sufficient, will be done are still not clear as the final agreement has not yet been signed. He has made it clear that it will not fund the expansion and hinted that Suzuki may decide to bring it in as a soft loan.
- He mentioned that whilst Maruti saves Rs15,600 per car (13% cost of capital); Suzuki gains by the cost of capital arbitrage on its 56% holding in Maruti and by strengthening Maruti which will spend its cash largely on further expansion of its marketing and distribution network and R&D. The 15-year agreement will have a clause of renewal on the same terms for another 15 years.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **MSIL IN / MRTI.BO** | **Price (31 Jan 14 , Rs)** | | | **1,635.35** |
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP Rs)** | | | **2,080 (2,080)** |
| Shares outstanding (mn) | 302.08 | Est. pot. % chg. to TP | | | 27 |
| Daily trad vol - 6m avg (mn) | 0.9 | 52-wk range (Rs) | | | 1846.5 - 1235.8 |
| Daily trad val - 6m avg (US$ mn) | 22.5 | Mkt cap (Rs/US$ bn) | | | 494.0/ 7.9 |
| Free float (%) | 43.8 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Suzuki Motor Corporation | Absolute (%) | (7.3) | 0 | 3.3 |
| | | Relative (%) | (4.3) | 3.2 | 0.2 |

| Year | 03/12A | 03/13A | 03/14E | 03/15E | 03/16E |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 355,871 | 435,879 | 439,211 | 496,761 | 588,103 |
| EBITDA (Rs mn) | 25,130 | 42,296 | 54,301 | 63,938 | 76,437 |
| Net profit (Rs mn) | 16,352 | 23,921 | 30,181 | 35,417 | 44,127 |
| EPS (Rs) | 57 | 79 | 100 | 117 | 146 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Rs) | n.a. | n.a. | 96 | 114 | 138 |
| EPS growth (%) | (28.6) | 40.0 | 26.2 | 17.3 | 24.6 |
| P/E (x) | 28.9 | 20.6 | 16.4 | 13.9 | 11.2 |
| Dividend yield (%) | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| EV/EBITDA (x) | 15.1 | 9.6 | 7.2 | 4.9 | 2.9 |
| P/B (x) | 3.1 | 2.7 | 2.3 | 2.0 | 1.7 |
| ROE (%) | 11.3 | 14.2 | 15.1 | 15.4 | 16.6 |
| Net debt(cash)/equity (%) | (75.1) | (46.4) | (48.6) | (72.2) | (95.7) |

*Note 1: Maruti Suzuki India Limited (MSIL) is a passenger car company. The company is engaged in the business of manufacturing, purchase and sale of motor vehicles and spare parts (automobiles).*

Click here for detailed financials

**The intent from Maruti's board seems right…** Whilst the intent from Suzuki can be questioned given that they intended to set it up as a 100% subsidiary to establish a plant in India, Maruti's independent directors have done their job and got a fair deal for Maruti. So Suzuki will now enter into a contract manufacturing arrangement with Maruti and instead of benefiting from the profits of the plant, Suzuki will benefit only from its 56% stake in Maruti; a benefit which will be available to Maruti's minority shareholders as well. Management gave a strong commitment that at no point in time will the sub have any extra cash. It will also not give any dividends, so Suzuki will not get any direct returns from this plant and merger is also ruled out as it will need to be approved by minority shareholders which will never happen.

**… some more specifics though would have given more comfort.** Whilst the Chairman gave us comfort on protecting minority interest, details on how the capacity expansion beyond 250,000 would be funded remained elusive as the final contract has not yet been signed and this issue has not yet been discussed with Suzuki. The plan is to fund the capacity expansion from 250,000 to 1.5 mn units largely through internal accruals. Given that the subsidiary will need to invest into capacity almost every two years and also need to invest in power-trains, internal accruals will not be sufficient for at least the second and third phases. There is still a question on how this gap will be funded. Maruti's management is sure that they will not invest anything in the subsidiary and reckon that it may be funded by a short-term loan from Suzuki. In the later phases, the plant will be self-sustaining and once the capex expansion reaches completion, the benefit per car for Maruti will increase.

The other big issue on the deal is that Suzuki is investing Rs30 bn and will have assets of ~Rs250 bn at the end of 15 years. Management gave comfort that there will be a clause in the agreement whereby this agreement can be extended on the same terms for another 15 years and the lease on the land (owned by Maruti) on which the plant will be set up will be linked to the renewal of the agreement.

**How does this benefit Suzuki?** The financial benefit to Maruti is obvious as it saves on the money to be invested in capex and can generate additional income by investing in FMP's with this excess cash. Moreover, cost of capital for Maruti stands at ~13% versus ~5% for Suzuki; so it indirectly makes more money and higher RoCE if Suzuki does the investments. Maruti will make an extra Rs15,600 per car (cost of capital applied to capex) less the capex. As for Suzuki, its primary motive has been the lack of opportunities of utilisation of Rs250 bn cash it has—it does not need to invest for capacity expansion in any geography and was getting low returns on its excess cash. Hence, it will be better for Suzuki if Maruti makes extra money and 56% of that gets consolidated in Suzuki.

**Maruti will have full control over exports.** Given that the Gujarat plant may be used as an exports hub, there was doubt over Maruti's roll if the production would be done by Suzuki and they would be sold under Suzuki's brand. Management clarified that when Suzuki had made the decision that some export markets (Africa, Latin America and South-Asia) would be handled by Maruti; it is now Maruti's role to develop competency and infrastructure for exports. Maruti would have to take the lead in dealer expansion, brand handling and customer care and targets for these markets will go to Maruti only.

**Maruti will use cash for strengthening brand.** Maruti has no plans of any share buy-back now that it has less use of it with Suzuki doing all the capex. The management said that the company will use the extra cash for increasing the marketing efforts, increasing dealers, etc. Globally, between different car companies there is not much difference in technology; hence, it is important to differentiate on the marketing and sales network. Suzuki respects that Maruti has done a good job in India on this front and wants Maruti to focus on the same both in India and export markets with this extra cash. Maruti is also strengthening its R&D network which will entail extra spends.

# Petronet LNG Limited----Maintain NEUTRAL

**Lower utilisations, high LNG prices hurt; valuations supported by long-term contracts** **EPS: ▼ TP: ▼**

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- PLNG reported 3Q PAT c.7-9% below CS and consensus estimates. Volumes were the weakest in over three years, and declined 2% QoQ. Total EBTIDA fell 4% QoQ, though stronger other income helped. 9MFY14 PAT is 65% of full-year consensus.
- Higher interest/DD&A at Kochi hurt in 3QFY14; high LNG prices hurt demand at Kochi and Dahej. The completion of pipelines later in 2014 may help Kochi off-take, but high LNG prices mean terminal utilisations can remain subdued, keeping earnings in check.
- With the 1/1.5MT contracts with BPCL/IOC, PLNG has now signed ship-or-pay contracts for 14.75 MT out of the 15 MT capacity its Dahej terminal will have by end 2016. On a DCF basis, just these volumes can be worth Rs.98/sh; assuming a 0% tariff increase post 2017.
- We update our models for 9M14 and build in lower near-term trading gains. Our FY14/15 EPS falls 22/15% and our TP reduces to Rs118 (from Rs132). While longer-term utility earnings provide strong valuation support, we maintain our NEUTRAL rating on the stock due to the near-term Kochi earnings drag and lack of near-term catalysts.

| **Bbg/RIC** | **PLNG IN / PLNG.BO** | **Price (31 Jan 14 , Rs)** | | | **109.90** |
|---|---|---|---|---|---|
| **Rating (prev. rating)** | **N (N)** | **TP (prev. TP Rs)** | | | **118.00 (132.00)** |
| Shares outstanding (mn) | 750.00 | Est. pot. % chg. to TP | | | 7 |
| Daily trad vol - 6m avg (mn) | 1.1 | 52-wk range (Rs) | | | 154.8 - 104.2 |
| Daily trad val - 6m avg (US$ mn) | 2.1 | Mkt cap (Rs/US$ mn) | | | 82,425.0/ 1,315.0 |
| Free float (%) | 50.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | GAIL IN, BPCL IN, IOCL IN, ONGC IN | Absolute (%) | (9.5) | (12.7) | (27.1) |
| | | Relative (%) | (7.9) | (9.3) | (30.8) |

| **Year** | **03/12A** | **03/13A** | **03/14E** | **03/15E** | **03/16E** |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 226,959 | 314,674 | 408,306 | 488,114 | 585,066 |
| EBITDA (Rs mn) | 19,141 | 20,253 | 15,806 | 18,310 | 21,066 |
| Net profit (Rs mn) | 10,575 | 11,493 | 7,249 | 7,257 | 8,992 |
| EPS (Rs) | 14.1 | 15.3 | 9.7 | 9.7 | 12.0 |
| - Change from prev. EPS (%) | n.a. | n.a. | (22) | (15) | (11) |
| - Consensus EPS (Rs) | n.a. | n.a. | 10.8 | 12.0 | 14.9 |
| EPS growth (%) | 70.7 | 8.7 | (36.9) | 0.1 | 23.9 |
| P/E (x) | 7.8 | 7.2 | 11.4 | 11.4 | 9.2 |
| Dividend yield (%) | 2.3 | 2.3 | 1.4 | 1.4 | 1.8 |
| EV/EBITDA (x) | 5.5 | 4.9 | 7.1 | 6.2 | 5.1 |
| P/B (x) | 2.3 | 1.9 | 1.6 | 1.5 | 1.3 |
| ROE (%) | 34.1 | 28.8 | 15.3 | 13.6 | 15.0 |
| Net debt(cash)/equity (%) | 62.3 | 39.7 | 59.4 | 54.1 | 39.1 |

*Note 1: Petronet LNG Limited is engaged in the import and regasification of liquefied natural gas (LNG). The Company has an operating terminal located at Dahej, Gujarat. The Company was formed as a joint venture by the Government of India to import LNG.*

Click here for detailed financials

## Results disappoint on lower volumes

PLNG's 3Q PAT came in c.7-9% below CS/consensus expectations; Dahej volumes during the quarter declined further to 120TBTU—and utilisations were the lowest reported in over three years. Management suggests this is due to the weak demand environment, compounded by high LNG prices. Some industrial units in Gujarat had switched to coal during the quarter—which have now returned to gas; PLNG expects demand to improve incrementally once prices come off.

The Kochi terminal operated at c.5% utilisation and appears to have been break-even at the EBITDA level; interest and depreciation expenses amount to Rs1 bn per quarter, and amount to a likely Rs3.5/sh drag on annualised EPS (c.20-25% of FY13A).

**Figure 1: Results summary**

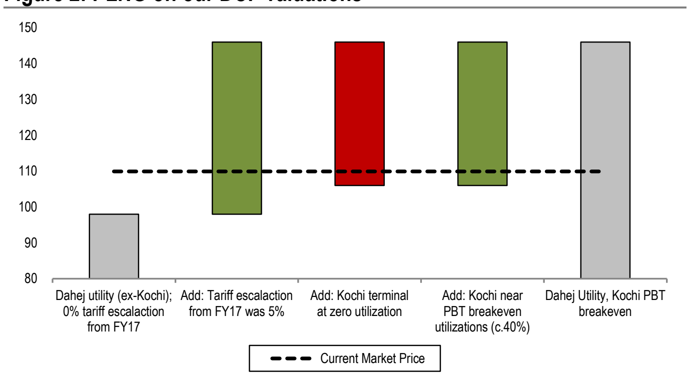
| **INR Million** | **3Q13** | **2Q14** | **3Q14** | **3Q14E** | **QoQ (%)** | **YoY (%)** | **vs Est(%)** |
|---|---|---|---|---|---|---|---|
| Sales | 84,228 | 94,935 | 93,821 | 98,794 | (1) | 11 | (5) |
| Raw materials | 78,162 | 90,316 | 89,171 | 93,872 | (1) | 14 | (5) |
| EBITDA | 5,289 | 3,639 | 3,499 | 3,822 | (4) | (34) | (8) |
| Depreciation | 472 | 597 | 1,017 | 992 | 70 | 116 | 3 |
| Interest | 291 | 386 | 783 | 896 | 103 | 169 | (13) |
| PBT | 4,675 | 2,818 | 1,915 | 2,150 | (32) | (59) | (11) |
| Tax | 1,490 | 1,000 | 560 | 699 | (44) | (62) | (20) |
| PAT | 3,185 | 1,818 | 1,355 | 1,451 | (25) | (57) | (7) |
| EPS | 4.25 | 2.42 | 1.81 | 1.93 | (25) | (57) | (7) |
| **Volumes (TBTU)** | **3Q13** | **2Q14** | **3Q14** | **3Q14E** | **QoQ (%)** | **YoY (%)** | **vs Est(%)** |
| Sales quantity | 127 | 111 | 102 | 112 | (8) | (19) | (9) |
| Regas quantity | 14 | 12 | 18 | 13 | 48 | 31 | 37 |

Source: Company data, Credit Suisse estimates.

## Dahej expansion key to earnings growth

The second jetty at Dahej is expected to complete by Mar-14, when part of assured GSPC volumes begin—although 100% terminal utilisation could require an improvement in demand. The signing of tolling contracts with BPCL/IOC mean that regas earnings for c.98% of headline capacity is now assured. Other positives discussed on the analyst call were: (1) financial closure for the expansion as well as awarding of contracts is complete, (2) capex has been revised down by Rs6 bn (c.20%) and (3) half of the expansion will be financed by advances from BPCL/GAIL/IOC/GSPC (Not Listed)—resulting in lower gearing on PLNG's balance sheet and better cash flows.

**Figure 2: PLNG on our DCF valuations**




Source: Company data, Credit Suisse estimates.

## Implied stock expectations low, but lacks catalysts

PLNG's 9M14 EPS is only 65% of full-year consensus expectations, and with 4Q likely to be relatively subdued as well, the stock could see material earnings cuts near-term. On a DCF basis, assured earnings from the terminal alone work out to Rs97/sh, assuming the 5% annual escalation in regas tariffs stops in FY17. We update our models for 9M14 delivered numbers and the announced BPCL/IOC tolling agreements. Our FY14/15 EPS falls 22/15%. Given escalating costs, we believe there is reduced risk to regas tariff cuts—although the 5% annual escalation could have some downside. We maintain our NEUTRAL rating on the stock on the back of continued drag on earnings from Kochi and lack of near-term catalysts.

## Punjab National Bank Ltd ----------------------------------------------------Maintain NEUTRAL

### Rising opex burden drags pre-provision profitability

**EPS: ▼ TP: ◄►**

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- PNB's 3Q net profit declined 42% YoY, 28% below estimate, on elevated credit cost (1.7% vs 1.1% in 3Q13). Pre-provision profit was muted (+3% YoY) as rising opex burden (+22% YoY) offset pick-up in loan growth (+10% YoY). With weakening pre-provision profitability and elevated provisioning, ROAs fell to 0.6%.
- Management is targeting further acceleration in loan growth to 14-15% by March 2014. SME loan growth picked up (25% YoY), incrementally contributing >50% of loan growth in the last 12 months. NIM improved (10 bp QoQ to 3.6%) on improvement in yields on advance (+15 bp QoQ) due to likely lower interest income reversals.
- Gross NPA fell 18 bp QoQ on lower gross slippage (2.1% annualised). Total problem asset addition, though, was still high at 3.2% (annualised) on high restructuring (Rs21 bn). NPL cover improved to 45% (4% QoQ) on higher provisions and was the key positive.
- While the bank is better positioned versus peers on capital (Tier I of ~9.5%), with high under-provisioning and weakening of pre-provision profitability, ROEs (at 8.5%) are unlikely to improve meaningfully. We cut our EPS estimates by 4-9% on higher opex. Maintain NEUTRAL.

| Bbg/RIC | PNB IN / PNBK.BO | Price (31 Jan 14 , Rs) | | | 548.60 |
|---|---|---|---|---|---|
| Rating (prev. rating) | N (N) | TP (prev. TP Rs) | | | 555.00 (555.00) |
| Shares outstanding (mn) | 362.07 | Est. pot. % chg. to TP | | | 1 |
| Daily trad vol - 6m avg (mn) | 2.0 | 52-wk range (Rs) | | | 899.4 - 409.6 |
| Daily trad val - 6m avg (US$ mn) | 16.5 | Mkt cap (Rs/US$ bn) | | | 198.6/ 3.2 |
| Free float (%) | 37.2 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | LIC (14.2%) | Absolute (%) | (10.2) | (4.7) | (39.0) |
| | | Relative (%) | (8.4) | (1.3) | (42.7) |

| Year | 03/12A | 03/13A | 03/14E | 03/15E | 03/16E |
|---|---|---|---|---|---|
| Pre-prov Op profit (Rs mn) | 106,142.9 | 109,074.3 | 111,274.4 | 128,835.7 | 157,416.4 |
| Net profit (Rs mn) | 52,364 | 51,233 | 36,554 | 49,877 | 62,179 |
| EPS (CS adj. Rs) | 160 | 148 | 102 | 138 | 172 |
| - Change from prev. EPS (%) | n.a. | n.a. | (9) | (4) | (5) |
| - Consensus EPS (Rs) | n.a. | n.a. | 113 | 140 | 172 |
| EPS growth (%) | 6.5 | (7.3) | (30.9) | 34.8 | 24.7 |
| P/E (x) | 3.4 | 3.7 | 5.4 | 4.0 | 3.2 |
| Dividend yield (%) | 4.1 | 5.6 | 4.8 | 5.7 | 7.2 |
| BVPS (CS adj. Rs) | 777 | 884 | 949 | 1,051 | 1,178 |
| P/B (x) | 0.71 | 0.62 | 0.58 | 0.52 | 0.47 |
| ROE (%) | 22.6 | 17.8 | 11.1 | 13.8 | 15.4 |
| ROA (%) | 1.3 | 1.1 | 0.7 | 0.9 | 0.9 |
| Tier 1 Ratio (%) | 9.3 | 9.8 | 9.5 | 9.1 | 8.8 |

*Note 1: Punjab National Bank is the 2nd largest government-owned bank in India with 5,190 branches and an asset base of Rs3780bn at March 31, 2011.*

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### Earnings miss on elevated NPL provisions and MTM depreciation

Management is targeting further acceleration in loan growth to 14-15% by Mar-14. SME loan growth picked-up (25% YoY), incrementally contributing >50% of loan growth in the last 12 months. Retail loan growth was healthy as well at 18% YoY. NIM improved (10 bp QoQ to 3.6%) on improvement in yields on advance (+15 bp QoQ) due to likely lower interest reversals on the back of a decline in gross slippages. Core fee income was sluggish (+2% YoY) primarily on drop in forex income (-34% QoQ). Opex growth (+21% YoY) outpaced top-line growth driven by employee provisions. Further impact on wage cost may come from pension liabilities post finalisation of wage revision and impact of change in mortality and wage growth assumptions.

### Increase in NPL cover incrementally positive

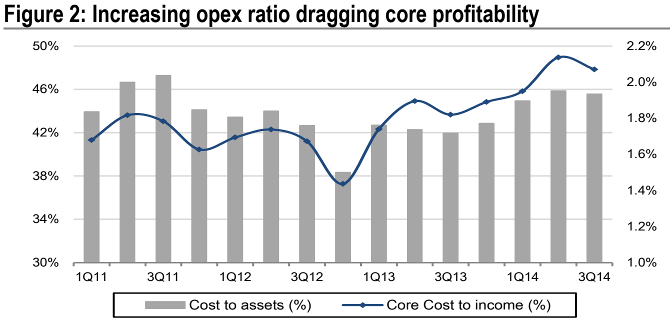
Gross NPA declined 18 bp QoQ on lower gross slippage (2.1% annualised vs 4.3% for 2Q14). Total problem asset addition, though significantly improved from earlier quarters, still remains high at 3.2% (annualised) on high restructuring (Rs21 bn). Credit cost was elevated (1.7% vs 1.1% in 3Q13), as NPL cover improved to 45% (4% QoQ). Adequate provisioning for problem assets during the quarter was a key positive from the result. Total problem loans at ~14.6% is one of the highest among peers. Unprovided problem loans for the bank remain high at ~114% of networth.

**Figure 1: 3Q14 results summary**

| (Rs mn) | 3Q14 | 3Q13 | YoY (%) | 2Q14 | QoQ (%) |
|---|---|---|---|---|---|
| **NII** | **42,211** | **37,333** | **13%** | **40,156** | **5%** |
| Core non-int income | 9,144 | 8,975 | 2% | 8,463 | 8% |
| Total income | 51,356 | 46,308 | 11% | 48,619 | 6% |
| Total opex | 24,572 | 20,219 | 22% | 23,800 | 3% |
| Pre-provisions profit | 26,784 | 26,089 | 3% | 24,819 | 8% |
| Total provisions | 13,710 | 7,696 | 78% | 14,557 | -6% |
| **Operating profits** | **13,073** | **18,393** | **-29%** | **10,261** | **27%** |
| Non-operating income | -1,950 | 410 | -576% | -3,900 | -50% |
| PBT | 11,123 | 18,803 | -41% | 6,361 | 75% |
| **Reported profit** | **7,554** | **13,056** | **-42%** | **5,055** | **49%** |
| **Key parameters** | | | | | |
| Deposits | 4,206 | 3,858 | 9.0% | 4,057 | 3.7% |
| Net advances | 3,261 | 2,973 | 9.7% | 3,139 | 3.9% |
| NIM (%) | 3.6% | 3.5% | 10 | 3.5% | 10 |
| CASA (%) | 38.3% | 38.4% | -13 | 40.7% | -243 |
| **ROA (%)** | **0.6%** | **1.1%** | **-51** | **0.4%** | **18** |
| Gross NPA (%) | 5.0% | 4.6% | 37 | 5.2% | -18 |
| Coverage ratio (%) | 45.3% | 45.8% | -54 | 41.9% | 341 |
| Restructured loans (%) | 9.6% | 9.6% | 0 | 11.1% | -392 |
| **Credit cost (%)** | **1.7%** | **1.1%** | **61** | **1.9%** | **-15** |
| CASA (%) | 38.3% | 38.4% | -0.1% | 40.7% | -2.4% |

Source: Company data, Credit Suisse estimates.

**Figure 2: Increasing opex ratio dragging core profitability**




Source: Company data, Credit Suisse estimates.

### ROA moderated to 0.6%

Overall, sharper-than-expected weakening of pre-provision profitability offset positives of adequate provisioning on problem assets. ROAs have declined to just 0.6% vs ~1% for FY13. While the bank is better positioned versus peers on capital (Tier I of ~9.5%), with under-provisioning high and weakening of pre-provision profitability, ROEs (at 8.5%) are unlikely to improve meaningfully. We cut our EPS estimates by 4-9% on higher opex burden. Maintain NEUTRAL.

## Union Bank of India --------------------------------------------------- Maintain UNDERPERFORM

**Weak profitability; constrained for capital** **EPS: ▼ TP: ▼**

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- Union Bank's net profit, up 10% YoY, was 14% below estimates. Pre-provision profit growth was weak (negative 4% YoY) due to pressure on NIMs (down 45 bp YoY) and continued high opex (+18% YoY). ROA was at 0.4% despite lower NPL provisions (1.1% vs 1.7% for 2Q).
- Loan growth moderated to 20% YoY (from 26% in 2Q) and is likely to be at ~15% by Mar-13. High loan growth, rise in impairments and weak profitability has resulted in bank's Tier I getting depleted (Core Tier I at 6.7% including 9M profits). Capital needs are significant with dilution of ~75% needed to just raise the CET1 to 9% at CMP.
- Opex (+18% YoY) outpaced top-line with cost-income rising to 52% is one of the highest among peers. Total problem asset addition was still high at ~3.4% (annualised). Even as gross NPA increased by 22 bp QoQ, credit cost was lower (at ~1.1%). Under-provisioning increased with un-provided problem loans at ~96% of networth.
- Even as valuations appear cheap at 0.4x book, given weak profitability (ROE of 8%), large capital needs and high under-provisioning, we maintain UNDERPERFORM. We cut our EPS by 10-13% as we build in dilution for FY14/15. We reduce our TP to Rs97.

| | | | |
|---|---|---|---|
| **Bbg/RIC** | **UNBK IN / UNBK.BO** | **Price (31 Jan 14 , Rs)** | **108.05** |
| **Rating (prev. rating)** | **U (U)** | **TP (prev. TP Rs)** | **97.00 (120.00)** |
| Shares outstanding (mn) | 630.31 | Est. pot. % chg. to TP | (10) |
| Daily trad vol - 6m avg (mn) | 5.0 | 52-wk range (Rs) | 248.8 - 98.6 |
| Daily trad val - 6m avg (US$ mn) | 9.6 | Mkt cap (Rs/US$ mn) | 68,104.6/ 1,086.5 |
| Free float (%) | 35.7 | | |
| Major shareholders | GOI | | |

| **Performance** | **1M** | **3M** | **12M** |
|---|---|---|---|
| Absolute (%) | (14.6) | (20.6) | (56.6) |
| Relative (%) | (12.8) | (17.2) | (60.3) |

| **Year** | **03/12A** | **03/13A** | **03/14E** | **03/15E** | **03/16E** |
|---|---|---|---|---|---|
| Pre-prov Op profit (Rs mn) | 48,129.9 | 51,054.2 | 47,566.2 | 59,485.0 | 76,536.7 |
| Net profit (Rs mn) | 17,871 | 21,579 | 16,664 | 24,087 | 32,687 |
| EPS (CS adj. Rs) | 33.3 | 37.6 | 27.0 | 35.0 | 44.3 |
| - Change from prev. EPS (%) | n.a. | n.a. | (2) | (10) | (13) |
| - Consensus EPS (Rs) | n.a. | n.a. | 30.9 | 38.7 | 48.0 |
| EPS growth (%) | (17.8) | 13.1 | (28.2) | 29.7 | 26.5 |
| P/E (x) | 3.2 | 2.9 | 4.0 | 3.1 | 2.4 |
| Dividend yield (%) | 8.8 | 8.7 | 7.6 | 8.7 | 10.8 |
| BVPS (CS adj. Rs) | 242 | 273 | 283 | 296 | 309 |
| P/B (x) | 0.45 | 0.40 | 0.38 | 0.36 | 0.35 |
| ROE (%) | 14.9 | 15.0 | 10.1 | 12.7 | 15.2 |
| ROA (%) | 0.7 | 0.8 | 0.5 | 0.6 | 0.7 |
| Tier 1 Ratio (%) | 8.37 | 8.23 | 7.81 | 7.64 | 7.18 |

*Note 1: Union Bank of India is a leading government-owned bank in India with 3,100 branches and an asset base of Rs2360bn at March 31, 2011.*

Click here for detailed financials

### Weak pre-provision profitability

Loan growth remains high at 20% YoY despite moderation with growth remaining strong across all segments. SME was the fastest growing segment (+30% YoY), incrementally contributing to most of the growth during the quarter. Management is guiding for loan growth to moderate to ~15% by Mar-13. NIMs remained under pressure (down 4 bp QoQ to 2.5%) on rise in cost of fund (+20bp QoQ). CASA ratio has come down to 28.8% (down 250bp YoY) on strong balance sheet growth. Core fee income showed improved traction (+25% YoY). Opex growth remained high (+18% YoY) as the bank provided (Rs450 mn in 3Q) towards wage re-negotiation. Increasing opex burden (cost-income at 52%) despite slowing top-line has been a significant burden on pre-provisions profits (down 4% YoY). Bank's per-provision ROA of 1.4% is also lower versus its immediate peers—BOI, PNB and BOB. Tax rate for the quarter was high as well at ~46%.

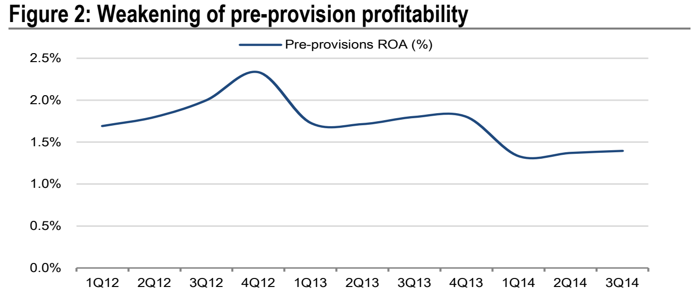
Total problem asset addition remained high at ~3.2% (annualised) as gross NPA moves up 22 bp QoQ. Restructuring was high as well at Rs10 bn with further pipeline of Rs18 bn for 4Q14. The bank pulled back on NPL provisions (at 1.1% versus 1.7% in 2Q) resulting in NPL cover being flat at 42%. Under-provisioning increased with total un-provided problem loans as a % of networth at 96%.

**Figure 1: 3Q14 results summary**

| **(Rs mn)** | **3Q14** | **3Q13** | **YoY (%)** | **2Q14** | **QoQ (%)** |
|---|---|---|---|---|---|
| **NII** | **19,635** | **18,915** | **4%** | **19,545** | **0%** |
| Fee income | 5,229 | 4,185 | 25% | 4,452 | 17% |
| Recovery from w/off accounts | 870 | 1,090 | -20% | 710 | 23% |
| Total income | 25,734 | 24,190 | 6% | 24,706 | 4% |
| Total opex | 13,818 | 11,726 | 18% | 13,407 | 3% |
| **Pre-provision profits** | **11,916** | **12,464** | **-4%** | **11,299** | **5%** |
| Loan loss provisions | 5,430 | 7,030 | -23% | 6,730 | -19% |
| Total provisions | 5,664 | 8,163 | -31% | 9,398 | -40% |
| **Operating profits** | **6,252** | **4,300** | **45%** | **1,902** | **229%** |
| Treasury* | 260 | 710 | -63% | 980 | -73% |
| PBT | 6,512 | 5,010 | 30% | 2,882 | 126% |
| **Reported profit** | **3,489** | **3,024** | **15%** | **2,081** | **68%** |
| **Key parameters (Rs bn)** | | | | | |
| Advances | 2,230 | 1,859 | 20% | 2,173 | 3% |
| Deposits | 2,851 | 2,394 | 19% | 2,870 | -1% |
| **NIM (%)** | **2.5%** | **3.0%** | **-45** | **2.5%** | **-4** |
| CASA (%) | 28.8% | 31.3% | -245 | 28.2% | 55 |
| Tier I (%) | 6.8% | 8.4% | -165 | 7.1% | -36 |
| **ROA (%)** | **0.4%** | **0.4%** | -3 | **0.3%** | 16 |
| Gross NPA (%) | 3.9% | 3.4% | 49 | 3.7% | 22 |
| Net NPA (%) | 2.3% | 1.7% | 56 | 2.1% | 11 |
| Coverage ratio (%) | 42.5% | 50.4% | -788 | 42.1% | 42 |
| **Credit cost (%)** | **1.1%** | **1.9%** | **-80** | **1.7%** | **-65** |

Source: Company data, Credit Suisse estimates. * Treasury = Gains on sale of investments – write-back on inv dep

**Figure 2: Weakening of pre-provision profitability**




Source: Company data, Credit Suisse estimates.

### Constrained for capital, maintain UNDERPERFORM

Core Equity Tier I for the bank (at 6.7% including profit plough-back) has got depleted on high loan growth and weak profitability. To maintain 15%+ growth, the bank would need significant capital injection. We cut our estimate by ~10-13% as we factor in equity dilution for FY14/15. Even as valuations appear cheap at 0.4x book, given weak profitability (ROE of 8%), large capital needs and high under-provisioning, we maintain our UNDERPERFORM rating. We reduce our target price to Rs97 (earlier Rs120).

**Japan**

## Honda Motor ------------------------------------------------------------------- Maintain OUTPERFORM

**3Q results: 4Q EPS guidance near ¥100 is noteworthy** **EPS: ◄► TP: ◄►**

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- Honda Motor announced 3Q FY3/14 results. Consolidated OP was ¥228.6 bn, ahead of our ¥224 bn forecast and the ¥220 bn I/B/E/S consensus.
- Although Honda (1) lowered its FY3/14 full-year consolidated sales volume estimate by 50,000 units (similar to our forecast) and (2) reiterated consolidated OP guidance of ¥780 bn, it also (3) raised its equity-method earnings forecast to ¥145 bn from ¥135 bn. Our overall impression from the announcement is neutral.
- Honda expects a QoQ decline in consolidated OP to ¥195 bn in 4Q. We consider this conservative in view of its expense forecasts. Of greater interest, however, is its 4Q EPS forecast of ¥98, up from ¥89 in 3Q. The driver is equity-method earnings.
- We believe the short-term share price impact is likely to be positive. Moreover, we still believe Honda will conduct share buybacks in 4Q aimed at a 30% shareholder return ratio. Click here for full report.

| Bbg/RIC | 7267 JP / 7267.T | Price (31 Jan 14, ¥) | | | 3,893.00 |
|---|---|---|---|---|---|
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP ¥)** | | | **5,060 (5,060)** |
| Shares outstanding (mn) | 1,802.29 | Est. pot. % chg. to TP | | | 30 |
| Daily trad vol - 6m avg (mn) | 5.6 | 52-wk range (¥) | | | 4365.0 - 3330.0 |
| Daily trad val - 6m avg (US$ mn) | 219.7 | Mkt cap (¥/US$ bn) | | | 7,016.3/ 68.5 |
| Free float (%) | 80.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | | Absolute (%) | (10.1) | (0.9) | 11.1 |
| | | Relative (%) | (3.8) | (4.1) | (18.8) |

| Year | 03/12A | 03/13A | 03/14E | 03/15E | 03/16E |
|---|---|---|---|---|---|
| Revenue (¥ bn) | 7,948 | 9,878 | 12,022 | 13,145 | 13,408 |
| EBITDA (¥ bn) | 525 | 831 | 1,190 | 1,372 | 1,443 |
| Net profit (¥ bn) | 211.5 | 367.1 | 608.6 | 739.5 | 763.5 |
| EPS (¥) | 117 | 203 | 340 | 412 | 426 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (¥) | n.a. | n.a. | 335 | 393 | 443 |
| EPS growth (%) | (60.3) | 72.7 | 67.7 | 21.4 | 3.2 |
| P/E (x) | 33.2 | 19.2 | 11.5 | 9.4 | 9.1 |
| Dividend yield (%) | 1.5 | 2.0 | 2.1 | 2.7 | 2.8 |
| EV/EBITDA (x) | 18.8 | 12.9 | 9.4 | 8.3 | 7.8 |
| P/B (x) | 1.6 | 1.4 | 1.2 | 1.1 | 1.0 |
| ROE (%) | 4.8 | 7.8 | 11.3 | 12.3 | 11.7 |
| Net debt(cash)/equity (%) | 63.2 | 71.0 | 71.3 | 68.1 | 60.0 |

*Note 1: ORD/ADR=1.00. Note 2: "HONDA MOTOR CO., LTD. develops, manufactures, and distributes motorcycles, automobiles, and power products such as generators and farm machinery. The company also operates a financial credit business.*

Click here for detailed financials

### Conference call highlights: Company estimates 4Q OP of ¥195 bn, but projection of 4Q EPS around ¥100 is noteworthy

Honda expects a QoQ decline in consolidated OP to ¥195 bn in 4Q. We consider this conservative in view of its expense forecasts. Of greater interest, however, is its 4Q EPS forecast of ¥98, up from ¥89 in 3Q. The driver is equity-method earnings.

For 4Q, Honda estimates ¥45 bn from equity-method earnings, up from ¥31.6 bn in 3Q, driven by extremely strong Chinese sales volume at 240,000 vehicles in Oct-Dec. Since the Oct-Dec earnings from China are already confirmed, the probability that it will reach this level appears extremely high.

Four times Honda's 4Q consolidated OP forecast of ¥195 bn equals the FY guidance of ¥780 bn. For FY3/15, however, it targets Chinese sales of over 900,000 vehicles. Even if equity-method earnings do not reach ¥180 bn (4 × ¥45 bn), we still expect strong growth.

In sum, the FY3/15 EPS consensus includes: (1) OP growth, (2) equity-method earnings growth centered on China, and (3) YoY improvements in non-operating items. On this basis, we strongly expect upward movement from the current level (¥394).

### Short-term share price impact: Positive

Honda shares have fallen around 10% in the past month. Its P/E on our FY3/15 forecast has corrected to 9.4x. We think the main factors are: (1) the strong yen combined with instability in emerging markets, and (2) concern about Honda's short-term earnings (or sell-side forecasts). Honda's quarterly OP had been below consensus for the previous eight consecutive quarters. Third-quarter results having come in ahead of consensus could ease the market's short-term earnings concerns to some degree. We therefore believe the short-term share price impact is likely to be positive. Moreover, we still believe Honda will conduct share buybacks in 4Q aimed at a 30% shareholder return ratio.

*This is an extract from the Honda Motor report published on 31 January 2014. Please see CS's R&A website for more details.*

**Figure 1: Earnings forecasts summary**

| | | | Sales | | Operating profit | | Profit Before Tax | | Net profit | | EPS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | ¥mn | YoY (%) | ¥mn | YoY (%) | ¥mn | YoY (%) | ¥mn | YoY (%) | ¥ | YoY (%) |
| **Consolidated** | | | | | | | | | | | | |
| Mar-13 | A | | 9,877,947 | 24.3 | 544,810 | 135.5 | 488,891 | 89.9 | 367,149 | 73.6 | 202.7 | 72.7 |
| Mar-14 | 1Q A | | 2,834,095 | 16.3 | 184,963 | 5.1 | 172,035 | -11.7 | 122,499 | -7.0 | 68.0 | -7.0 |
| | 2Q A | | 2,890,221 | 27.3 | 171,451 | 70.0 | 165,587 | 55.8 | 120,368 | 46.4 | 66.8 | 46.4 |
| | 3Q A | | 3,020,889 | 24.5 | 228,574 | 73.2 | 216,612 | 141.3 | 160,732 | 107.6 | 89.2 | 107.6 |
| **Mar-14** | **CS E** | | **12,022,316** | **21.7** | **826,414** | **51.7** | **818,622** | **67.4** | **608,614** | **65.8** | **339.9** | **67.7** |
| | CoE | (new) | 12,100,000 | 22.5 | 780,000 | 43.2 | 755,000 | 54.4 | 580,000 | 58.0 | 321.8 | 58.8 |
| | | (prev) | 12,100,000 | 22.5 | 780,000 | 43.2 | 765,000 | 56.5 | 580,000 | 58.0 | 321.8 | 58.8 |
| | IBES E | | 12,072,580 | 22.2 | 816,851 | 49.9 | 810,733 | 65.8 | 602,622 | 64.1 | 335.2 | 65.4 |
| **Mar-15** | **CS E** | | **13,145,000** | **9.3** | **974,000** | **17.9** | **996,000** | **21.7** | **739,515** | **21.5** | **412.5** | **21.4** |
| | IBES E | | 12,915,789 | 7.0 | 937,914 | 14.8 | 951,143 | 17.3 | 707,604 | 17.4 | 393.5 | 17.4 |
| **Mar-16** | **CS E** | | **13,408,000** | **2.0** | **981,000** | **0.7** | **1,003,000** | **0.7** | **763,505** | **3.2** | **425.8** | **3.2** |
| | IBES E | | 13,760,145 | 6.5 | 1,058,381 | 12.8 | 1,081,989 | 13.8 | 801,615 | 13.3 | 442.9 | 12.6 |

Source: Company data, I/B/E/S, Credit Suisse estimates

## Pakistan

# Pakistan 360° Tracker ---------------------------------------------------- Maintain OVERWEIGHT

### New report: Picking up where we left off in December

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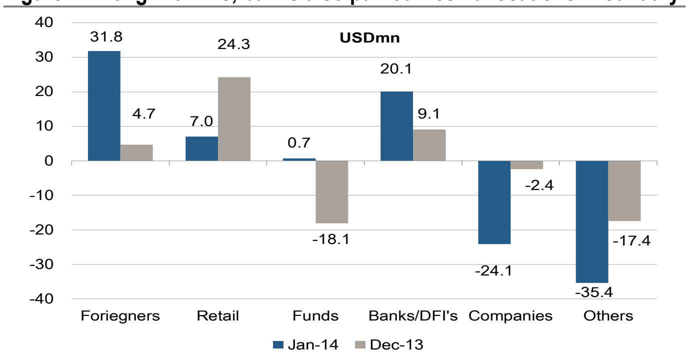
- Sentiments were lifted after an unexpected dip of 1.3% MoM in Dec CPI that ushered in hopes of a status quo in policy rate. The same eventually materialised and along with a resurgence of FII flows (US$31.8 mn; +6.8x MoM), the market racked up a USD return of +6.1% in January. Full Report.
- Incremental liquidity was visible in the system post the holiday season as ADTO picked up to US$79.2 mn (+8.2% MoM). Although large-caps drew more liquidity, they failed to outperform and gains were mostly skewed towards second and third tier names.
- In our view, the market should take the upcoming IMF review in its stride, given most deliverables are met. Beyond this, developments on privatisation and materialisation of foreign flows, will serve as a litmus test for the govt's commitment to reforms.
- We prefer ENGRO, PPL, LUCK, UBL & HUBC—names which we also plan to showcase at our upcoming Asia Frontier Markets Conference on 24-26 Feb, in New York & Boston. Our other top picks include OGDC & MCB.

**Figure 1: Along with FIIs, banks also parked fresh allocations in January**

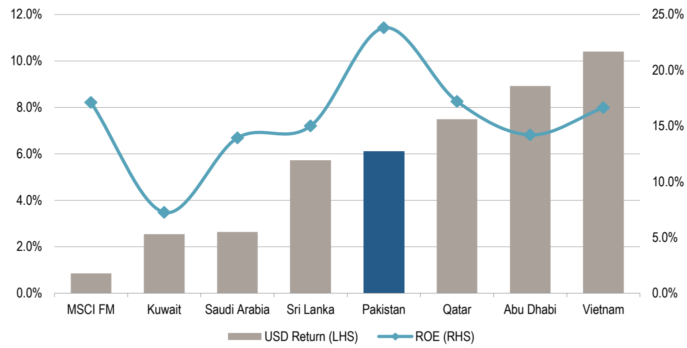



Source: NCCPL, Credit Suisse estimates.

### Temporary relief in macros pushes KSE +6.1% MoM

Though the market was expecting a cool-off in CPI, a lower than expected reading (9.2%; down 1.3% MoM) lifted sentiments and fuelled the case for a status quo on rates (which eventually materialized). The bourse posted an impressive USD return of 6.1% during January and stability in the PKR also buoyed the mood of FII's which pumped in a net US$31.8 mn (+6.8x MoM).

**Figure 2: Frontier markets posted impressive USD returns in January**




Source: Bloomberg, MSCI, Credit Suisse estimates.

### Incremental liquidity was visible in the system

ADTO propped up to US$79.2 mn (+8.2% MoM) backed by higher FII's post the holiday season in December. A sample of 15 large-cap stocks took up 49% of average volumes which had previously dipped to 39% in December. Nonetheless, many blue chips still lagged the benchmark as gains were seen in smaller caps. While the index has come off its highs of >27,000, we expect that corporate results and high payouts in the near term should restrict further downside.

Among the key event of the month, the Economic Coordination Committee (ECC) finally gave its nod of approval for concessionary gas pricing for Engro's Enven plant (at US$0.7/mmbtu) which drove a sharp rally in Engro Corp (+11.4% MoM) and a stupendous return of 71% MoM in the newly listed Engro Fertilizers.

### What lies in store over the next few months?

For now, market expectations do not seem to be pondering excessively over the upcoming IMF review. Statements from govt. officials are mostly positive and we see little hurdles in securing the third tranche of US$547 mn. However, the IMF could censure the authorities on the pace of the privatisation program and the government's failure to attract foreign flows. While the govt has granted in-principle approvals for divestment of stakes in OGDC, PPL, UBL and ABL, modalities remain unclear. Monetary tightening was avoided for now, however, we continue to pencil in a 50-100 bp rate hike in the March review. Auctions of Treasury bills also substantiate this view with post of the bids being pulled towards 3M paper.

**Figure 3: CS Pakistan coverage cluster—High conviction ideas**

| Ticker | Company Name | M. Cap (USDmn) | 6M ADTO (USDmn) | Price (PRs) | TP (PRs) | Upside (%) | 3-yr EPS CAGR | P/E (x) | P/B (x) | D/Y (%) | EV/EBITDA (x) | ROE (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OGDC.KA | Oil and Gas Develop. Co | 11,114 | 1.5 | 273 | 325 | 19% | 28% | 8.8 | 3.0 | 5.1 | 6.0 | 34 |
| PPL.KA | Pak Petroleum Limited | 4,134 | 3.8 | 221 | 255 | 15% | 24% | 7.8 | 2.4 | 5.0 | 5.0 | 30 |
| HPWR.KA | Hub Power Company | 708 | 1.1 | 65 | 80 | 24% | 14% | 7.3 | 2.3 | 13.2 | 4.9 | 31 |
| EGCH.KA | Engro Corporation Ltd | 864 | 6.8 | 178 | 204 | 14% | 31% | 7.6 | 1.5 | - | 4.8 | 20 |
| LUKC.KA | Lucky Cement | 950 | 1.4 | 310 | 335 | 8% | 17% | 8.7 | 2.0 | 3.6 | 6.0 | 24 |
| DGKH.KA | DG Khan Cement | 397 | 4.2 | 96 | 128 | 34% | 16% | 6.3 | 0.9 | 2.6 | 5.0 | 15 |
| MCB.KA | MCB Bank Limited | 2,723 | 1.7 | 284 | 350 | 23% | 16% | 11.3 | 2.3 | 4.9 | na | 20 |
| UBL.KA | United Bank Limited | 1,555 | 1.2 | 134 | 170 | 27% | 19% | 8.1 | 1.5 | 6.8 | na | 18 |

Source: Bloomberg, Credit Suisse estimates.

## Philippines

# Philippines Economics: GDP (4Q13) ---------------------------------------------------------------

**Unfazed by the Typhoon**

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- Philippines' 4Q real GDP growth came in at 6.5% YoY, better than market expectations of 6% YoY and our own above-consensus estimate for a 6.2% YoY rise. On a sequential basis, GDP growth accelerated to 1.5% QoQ seasonally adjusted (sa), from 1.1% QoQ sa increase in the previous quarter.
- The resilient YoY number and acceleration in sequential GDP growth were impressive, especially given the widespread concerns over the negative impact on economic growth from Super-Typhoon Haiyan.
- We note that stronger net exports helped to offset the moderation in private consumption growth. Exports were a positive contributor to GDP growth for the first time since 2Q 2012, while government consumption declined 5.2% YoY, from +4.6% YoY in the previous quarter—likely impacted by the pork barrel incident last year.
- We see no reason to change our above-consensus 2014 GDP forecast of 6.8% (consensus: 6.3%) partly due to our expectation that the post-typhoon reconstruction work will provide a boost to GDP growth in 2014. Our forecasts also reflect: (1) the lagged impact of monetary policy easing, and (2) stronger global growth.

**Figure 1: Philippines' GDP growth breakdown**

| | 1Q2013 | 2Q2013 | 3Q2013 | 4Q2013 |
|---|---|---|---|---|
| *(% YoY unless otherwise stated)* | | | | |
| Overall GDP (% YoY) | 7.7 | 7.6 | 6.9 | 6.5 |
| Overall GDP (% QoQ sa) | 2.2 | 1.6 | 1.1 | 1.5 |
| ***By expenditure*** | | | | |
| Private consumption | 5.5 | 5.1 | 6.2 | 5.6 |
| Government consumption | 13.2 | 18.0 | 4.6 | -5.2 |
| Gross fixed capital formation | 15.6 | 13.2 | 11.9 | 7.0 |
| Exports | -7.6 | -6.8 | 12.8 | 6.4 |
| Imports | 2.0 | -2.9 | 16.4 | 1.9 |
| ***By industry*** | | | | |
| Agriculture | 3.1 | -0.2 | 0.3 | 1.1 |
| Mining | -1.9 | -2.7 | 4.8 | -10.4 |
| Manufacturing | 9.5 | 10.3 | 9.7 | 12.3 |
| Construction | 29.3 | 17.4 | 4.5 | -0.8 |
| Services | 6.8 | 7.5 | 7.4 | 6.5 |

Source: Bloomberg, NSCB, Credit Suisse estimates.

### 4Q GDP surprised on the upside

Philippines' 4Q real GDP growth came in at 6.5% YoY, better than the market's expectation of 6% YoY and our own above-consensus estimate for a 6.2% YoY rise. On a sequential basis, GDP growth accelerated to 1.5% QoQ seasonally adjusted (sa), from 1.1% QoQ sa increase in the previous quarter. Full year 2013 real GDP growth came in at 7.2%, from 6.8% in 2012.

### Bruised, but not battered: Strong print given the pessimism post Typhoon Haiyan

The resilient YoY number and acceleration in sequential GDP growth were impressive, especially given the widespread concerns over the negative impact on economic growth from Super-Typhoon Haiyan, which hit the country in early November. We note that at one point, the government itself was forecasting 4Q GDP growth to come in as low as 4.5%. We have argued on several occasions that many analysts were too pessimistic in their GDP growth estimates, noting that the typhoon did not damage the vast majority of manufacturing and Business Process Outsourcing centres (see Philippines Chartpack and Focus Asia 1Q 2014).

### Net exports offset weaker private consumption and government spending

Looking at the details, we note that stronger net exports helped to offset the moderation in private consumption growth (+5.6% YoY, from 6.2% YoY previously). Net exports were a positive contributor to GDP growth for the first time since 2Q 2012, while government consumption declined 5.2% YoY, from +4.6% YoY in the previous quarter—likely impacted by the pork barrel incident last year. Stronger manufacturing activity is also consistent with the healthier export print.

### We see no reason to change our above-consensus 2014 GDP forecast of 6.8% (consensus: 6.3%)

The Philippines Economic Planning Secretary was quoted as saying that 1Q14 GDP will be impacted negatively by the typhoon. While agriculture production is likely to be dented in 2014, we hold a more sanguine view. This is due in part to our expectation that the post-typhoon reconstruction work will provide a boost to GDP growth in 2014. The government has already pencilled in 1% of GDP worth of reconstruction projects in its budget for this year alone. Our above consensus GDP forecast also reflects: (1) the lagged impact of monetary policy easing, and (2) stronger global growth, which should continue to boost production and exports over the coming quarters.

### Philippine financial markets not immune from EM sell-off

While GDP growth should surprise on the upside in 2014, the Philippine financial markets are unlikely to be immune from global developments. In particular, in recent weeks, the combination of renewed Chinese economic concerns, US QE tapering, and Argentina's peso devaluation have triggered another wobble in emerging markets (see Contagion? Re-testing Asian vulnerability).

### Monetary policy implications?

Post the GDP release, the central bank governor was quoted as saying that the central bank will 'act as appropriate to ensure CPI inflation is well-anchored' and that the 'fundamental strength of the Philippines economy is intact'. While this could be interpreted as marginally more hawkish, we doubt the central bank will tighten its monetary policy this year, due in part to support economic activity post the typhoon. In addition, we hold the view that the recent rise in CPI inflation is likely to be transitory and temporary, limiting the need for the BSP to respond with a rate hike.

South Korea

## Korea Economics -----------------------------------------------------------------------------------------------

### Export growth slowed in January, narrowing the trade surplus as per seasonal trend

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- Export and import growth recorded mild contractions in January. Exports declined slightly by 0.2% YoY, slowed from the 7% YoY gain in the prior month. Imports fell 0.9% YoY, also slowed from the 3% YoY gain before.
- The trade surplus has narrowed sharply to US$735 mn, from over US$3.6 bn in December, but it is consistent with the seasonal trend seen in prior years. The trend trade surplus has reached US$44.9 bn (3.6% of GDP) on a 12-month rolling sum basis.
- Details of the trade report shows that exports to Asia rose 3.4% YoY. Growth to China rose to 10.4% YoY, while those to ASEAN rose 8.3% YoY. Outside of Asia, export growth to the US slowed to 1.2% YoY, but those to Europe surged to double-digit level.
- The monthly trade growth figures have been volatile lately, but exports have picked up by 3.8% YoY in 2H13, up from 1H13. We expect to see come cyclical softness in Korea's merchandise trade in 1Q14, but maintain our expectation of continued recovery in 2014.

**Figure 1: Exports slowed in January, narrowing the trade surplus as per seasonal trend**


Source: MITE, Credit Suisse

**Export growth slowed, trade surplus narrowed**

Export and import growth recorded mild contractions in January. This has undershot market's expectation of a low-single digit gain in exports, though the actual gain in imports was above consensus. Exports declined slightly by 0.2% YoY, slowed from the 7% YoY gain in the prior month. Imports fell 0.9% YoY, also slowed from the 3% YoY gain before. The trade surplus has narrowed sharply to US$735 mn from over US$3.6 bn in the prior month, but it is consistent with the seasonal trend seen in prior years. The trend trade surplus has reached another recent high at US$44.9 bn (3.6% of GDP) on a 12-month rolling sum basis.

**Growth to Asia improved, but those to the US slowed**

Details of the trade report compiled by Bloomberg shows that exports to Asia rose 3.4% YoY, improved from the 1.5% YoY contraction in the prior month. Growth to China improved to 10.4% YoY, while those to ASEAN rose 8.3% YoY. In ASEAN, exports to Indonesia contracted 15.8% YoY, but those to Singapore, Vietnam and Thailand gained during the first 20 days of the month. Outside of Asia, export growth to the US moderated to 1.2% YoY, but those to Europe surge to double-digit level (at 21.5% YoY).

Product-wise, wireless telecommunication equipment exports grew 13.3% YoY. Semiconductors and automobile exports also recorded double-digit gains at 11.8% YoY and 13.8% YoY, respectively. Steel exports rebounded (19.4% YoY), but metals (-7.9% YoY) and petroleum (-11.9% YoY) contracted.

The monthly trade growth figures have been volatile lately, but exports have picked up by 3.8% YoY in 2H13, up from the 0.6% YoY gain seen in 1H13. We expect to see come cyclical softness in Korea's merchandise trade in 1Q14, but maintain our expectation of continued recovery helped by better demand in the developed markets.

Thailand

# VGI Global Media PCL ---------------------------------------------------Downgrade to NEUTRAL

**Overwhelming cyclical elements** **EPS: ▼ TP: ▼**

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- We have cut our earnings by 13-24% for FY14-16E to reflect the disappointing 3Q FY14 result and weaker growth momentum.
- VGI's cyclical business nature overwhelms its structural growth story on an emerging Out-Of-Home (OOH) media. Two unforeseen factors have severely affected the company's performance and led to a major cut in our numbers: (1) worse-than-expected economic growth and (2) a prolonged political uncertainty. Both have weakened the sentiment of corporates who put on hold or cut their advertising expenditure (adex) in mass transit and in-store media since 4Q13 (Oct-Dec).
- The market may have factored in the bad news but we believe the price movement could be stalled as the weak economy and unresolved political issue could get prolonged for an unknown period. While VGI’s fundamentals still remain intact, we will likely see another weak quarter (Jan-Mar), and it could take some time before the corporates resume their normal advertising spending.
- Downgrade VGI to NEUTRAL with a new 12-mth TP of Bt9.5/sh.

| Bbg/RIC | VGI TB / VGI.BK | Price (30 Jan 14 , Bt) | | | 8.35 |
|---|---|---|---|---|---|
| Rating (prev. rating) | N (O) | TP (prev. TP Bt) | | | 9.50 (13.46) |
| Shares outstanding (mn) | 3,431.97 | Est. pot. % chg. to TP | | | 14 |
| Daily trad vol - 6m avg (mn) | 12.7 | 52-wk range (Bt) | | | 14.04 - 8.35 |
| Daily trad val - 6m avg (US$ mn) | 4.2 | Mkt cap (Bt/US$ mn) | | | 28,657.0/ 868.4 |
| Free float (%) | 33.7 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | BTS Group Holdings Public Company Limited | Absolute (%) | (14.8) | (31.1) | (10.2) |
| | | Relative (%) | (11.9) | (28.0) | (13.4) |

| Year | 03/12A | 03/13A | 03/14E | 03/15E | 03/16E |
|---|---|---|---|---|---|
| Revenue (Bt mn) | 1,977 | 2,838 | 3,220 | 3,707 | 4,220 |
| EBITDA (Bt mn) | 526 | 1,289 | 1,625 | 1,944 | 2,256 |
| Net profit (Bt mn) | 278 | 908 | 1,236 | 1,460 | 1,701 |
| EPS (Bt) | 0.22 | 0.30 | 0.36 | 0.43 | 0.50 |
| - Change from prev. EPS (%) | n.a. | n.a. | (13) | (21) | (24) |
| - Consensus EPS (Bt) | n.a. | n.a. | 0.38 | 0.47 | 0.58 |
| EPS growth (%) | 61.6 | 33.8 | 21.7 | 18.1 | 16.5 |
| P/E (x) | 37.7 | 28.2 | 23.2 | 19.6 | 16.9 |
| Dividend yield (%) | 0 | 1.6 | 3.5 | 4.1 | 4.7 |
| EV/EBITDA (x) | 53.8 | 21.3 | 16.7 | 13.9 | 11.7 |
| P/B (x) | 32.6 | 15.8 | 12.2 | 10.5 | 9.0 |
| ROE (%) | 78.8 | 86.2 | 59.3 | 57.3 | 57.5 |
| Net debt(cash)/equity (%) | (130.1) | (69.1) | (62.5) | (62.8) | (70.5) |

*Note 1: VGI Global Media (VGI) is a provider of advertising services with exclusive rights to manage spaces on 23 stations of BTS's network and modern trade spaces such as Tesco Lotus, BigC and Watsons. It also provides advertising services in office buildings.*

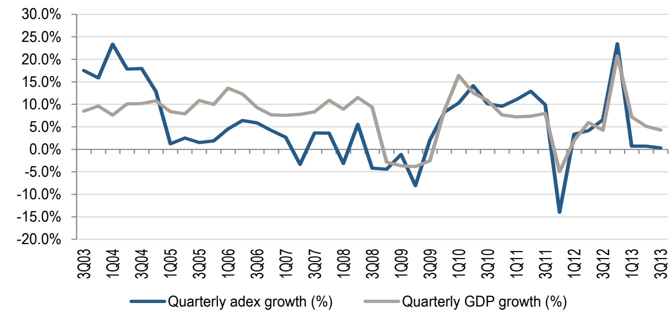
Click here for detailed financials

### Cyclical elements overwhelm structural growth story

We still like VGI's structural growth story on an emerging OOH media, driven by the changing lifestyle, mass transit network buildout and modern trade store expansion.

Unfortunately, VGI's cyclical elements appears to overwhelm the structural growth story. Ad spending is highly cyclical in nature as it depends on overall economic conditions and tends to be one of the first things that firms cut going into a downturn (Figure 1). Despite a lot of interesting growth factors from a combination of ad space expansion, digital media replacement and pricing adjustment, VGI still experienced a weaker growth momentum and posted disappointing result in 3QFY14. Margins held up well but top-line growth across business units was below our expectation.

**Figure 1: Ad spending is highly cyclical**




Source: Company data, Credit Suisse estimates

### Massive earnings cut to reflect weaker growth momentum

We have revised our earnings downward by 13-24% in FY14-16E on the back of lower revenue growth assumptions and visibility (Figure 2).

**Figure 2: Downward revision in revenue growth assumptions**

| | FY14E | FY15E | FY16E |
|---|---|---|---|
| **Old assumptions** | | | |
| Revenue growth | 30.0% | 24.2% | 18.0% |
| BTS related media (% YoY) | 35.0% | 27.5% | 20.0% |
| Modern trade media (% YoY) | 25.0% | 20.0% | 15.0% |
| Other revenue (% YoY) | 25.0% | 25.0% | 20.0% |
| **New assumptions** | | | |
| Revenue growth | 13.5% | 15.1% | 13.8% |
| BTS related media (% YoY) | 19.0% | 17.5% | 15.0% |
| Modern trade media (% YoY) | 8.0% | 12.5% | 12.5% |
| Other revenue (% YoY) | 7.0% | 12.5% | 12.5% |

Source: Company data, Credit Suisse estimates

There have been two unforeseen factors that have led to a major cut in our numbers: (1) worse-than-expected economy and (2) a prolonged political uncertainty. Our economist has cut 2014 GDP forecast to 3.0% from 4.5% in Jan, while our strategist sees the political situation to remain unstable for months if not longer. Both factors have materially weakened the sentiment of corporates who cut or delay their advertising activities since 4Q13 (Oct-Dec).

### Downgrade to NEUTRAL; bad news being factored in but price movement could be stalled

We downgrade VGI to NEUTRAL with a new 12-month target price of Bt9.5/share. We believe the fundamentals still remain intact and expect VGI's margins and ROE to remain high, given its exclusive rights to manage ad spaces on BTS skytrain for 15 years and modern trade stores and office builldings for three-five years.

While the market has somewhat factored in the bad news, given the falling share price of over 30% over the past 3M when the rally started in Oct 2013, the price movement might be stalled as the weak economy and unresolved political situation could get prolonged for an unknown period. Also, we could see another weak quarter (Jan-Mar) and it could take some time before the corporates resume their normal ad spending.

## Recently Published Research

| Date | Title | Author(s) | Tel. | E-mail |
|---|---|---|---|---|
| Mon 3 Feb | India IT Services Sector - The 3QFY14 chartbook | Anantha Narayan<br>Sagar Rastogi | 91 22 6777 3730<br>91 22 6777 3851 | anantha.narayan@credit-suisse.com<br>sagar.rastogi@credit-suisse.com |
| Mon 3 Feb | Pakistan 360° Tracker - Picking up where we left off in December | Farhan Rizvi<br>Fahd Niaz | 65 6212 3036<br>65 6212 3035 | farhan.rizvi@credit-suisse.com<br>fahd.niaz@credit-suisse.com |
| Wed 29 Jan | Asia Equity Strategy - How close to trough valuations? | Sakthi Siva<br>Kin Nang Chik | 65 6212 3027<br>852 2101 7482 | sakthi.siva@credit-suisse.com<br>kinnang.chik@credit-suisse.com |
| Wed 29 Jan | Asia Insurance Weekly - Prudential: Not lost in translation | Arjan van Veen | 852 2101 7508<br>852 2101 6693 | arjan.vanveen@credit-suisse.com<br>frances.feng@credit-suisse.com |
| Wed 29 Jan | China O&G Demand Monthly - Dec 2013: It's another gasoline year | Horace Tse<br>Thomas Wong<br>Kelly Chen | 852 2101 7379<br>852 2101 6738<br>852 2101 7079 | horace.tse@credit-suisse.com<br>thomas.wong@credit-suisse.com<br>kelly.chen@credit-suisse.com |
| Wed 29 Jan | GAIL (India) Ltd - Operational beat on LPG; core transmission, petchem segments disappoint | Sanjay Mookim<br>Badrinath Srinivasan | 65 6212 3017<br>91 22 6777 3698 | sanjay.mookim@credit-suisse.com<br>badrinath.srinivasan@credit-suisse.com |
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| Mon 27 Jan | Standard Chartered Plc - Assessing strategic options | Sanjay Jain<br>Vineet Thodge | 852 2101 6088<br>852 2101 7466 | sanjay.jain@credit-suisse.com<br>vineet.thodge@credit-suisse.com |

## Companies mentioned

**Adani Enterprises Ltd.** (ADEL.BO, Rs238.15, UNDERPERFORM[V], TP Rs196.0)
**Allied Bank Limited** (ABL.KA, PRs89.0)
**Amorepacific Corp** (090430.KS, W1,012,000)
**Baidu Inc** (BIDU.OQ, $158.1)
**Bajaj Auto Limited** (BAJA.BO, Rs1920.45)
**Bank of India** (BOI.BO, Rs186.35, UNDERPERFORM[V], TP Rs162.0)
**Bharat Heavy Electricals** (BHEL.BO, Rs170.7)
**Bharat Petroleum** (BPCL.BO, Rs363.6)
**CapitaMalls Asia** (CMAL.SI, S$1.8)
**CJ O Shopping Co Ltd** (035760.KQ, W402,900)
**Cummins India** (CUMM.BO, Rs429.8)
**DG Khan Cement Co Ltd** (DGKH.KA, PRs95.69, OUTPERFORM, TP PRs128.0)
**Engro Corporation Ltd** (EGCH.KA, PRs178.26, OUTPERFORM, TP PRs204.0)
**Engro Fertilizer** (ENGR.KA, PRs48.25)
**GAIL** (India) Ltd (GAIL.BO, Rs358.95)
**Glorious Property Holdings Limited** (0845.HK, HK$1.26)
**Godrej Consumer** (GOCP.NS, Rs739.25)
**Grasim Industries** (GRAS.BO, Rs2573.85, OUTPERFORM, TP Rs2940.0)
**GS Holdings** (078930.KS, W51,300)
**HCL Technologies** (HCLT.BO, Rs1464.7, OUTPERFORM, TP Rs1675.0)
**Hero Motocorp Ltd** (HROM.BO, Rs1999.75, UNDERPERFORM, TP Rs1930.0)
**Honda Motor** (7267.T, ¥3,893, OUTPERFORM, TP ¥5,060)
**Hub Power Company** (HPWR.KA, PRs64.57, OUTPERFORM, TP PRs80.0)
**Hutchison Port Holdings Trust** (HPHT.SI, $0.66)
**Hyundai Development** (012630.KS, W24,300)
**Hyundai Home Shopping Network Corp** (057050.KS, W181,500)
**Indian Oil Corp Limited** (IOC.BO, Rs245.3)
**Indian Overseas Bank** (IOBK.BO, Rs42.9, UNDERPERFORM, TP Rs35.0)
**Infosys Limited** (INFY.BO, Rs3699.45, NEUTRAL, TP Rs3800.0)
**Infrastructure Development Finance Co Ltd** (IDFC.BO, Rs93.15, OUTPERFORM, TP Rs128.0)
**IRPC** (IRPC.BK, Bt3.1)
**Jaiprakash Power Ventures Ltd** (JAPR.BO, Rs13.75)
**Jammu and Kashmir Bank** (JKBK.BO, Rs1295.45)
**Jubilant Foodworks** (JUBI.BO, Rs1092.15)
**Kalbe Farma** (KLBF.JK, Rp1,420)
**Las Vegas Sands Corp.** (LVS.N, $73.93)
**Lotte Chemical** (011170.KS, W211,500)
**Lucky Cement Co Ltd** (LUKC.KA, PRs309.75, OUTPERFORM, TP PRs335.0)
**Lupin Ltd** (LUPN.BO, Rs865.9)
**Marico Ltd** (MRCO.BO, Rs214.45, OUTPERFORM, TP Rs245.0)
**Maruti Suzuki India Ltd** (MRTI.BO, Rs1635.35, OUTPERFORM, TP Rs2080.0)
**MCB Bank Limited** (MCB.KA, PRs283.81, OUTPERFORM, TP PRs350.0)
**Navitas Ltd** (NVT.AX, A$6.57, OUTPERFORM, TP A$7.35)
**Oberoi Realty** (OEBO.BO, Rs189.8)
**Oil & Gas Development Company** (OGDC.KA, PRs272.54, OUTPERFORM, TP PRs325.0)
**Pakistan Petroleum Limited** (PPL.KA, PRs221.11, OUTPERFORM, TP PRs255.0)
**Petronet LNG Limited** (PLNG.BO, Rs109.9, NEUTRAL, TP Rs118.0)
**PTT Global Chemical** (PTTGC.BK, Bt69.5, OUTPERFORM, TP Bt95.0)
**Punjab National Bank Ltd** (PNBK.BO, Rs548.6, NEUTRAL, TP Rs555.0)
**Ranbaxy Laboratories Limited** (RANB.BO, Rs327.5)
**Sands China** (1928.HK, HK$58.4, OUTPERFORM, TP HK$78.2)
**Security Bank Corporation** (SECB.PS, P115.9)
**SK Innovation** (096770.KS, W127,000)
**Suzuki Motor** (7269.T, ¥2,692)
**Taro Pharmaceutical Industries Ltd** (TARO.N, $102.69)
**Tata Consultancy Services** (TCS.BO, Rs2236.2, OUTPERFORM, TP Rs2750.0)
**Tech Mahindra Limited** (TEML.BO, Rs1748.85)
**Treasury Wine** (TWE.AX, A$3.64, UNDERPERFORM, TP A$3.15)
**Ultratech Cement Ltd** (ULTC.BO, Rs1707.2)
**United Bank Limited** (UBL.KA, PRs133.99, OUTPERFORM, TP PRs170.0)
**United Spirits Ltd.** (UNSP.BO, Rs2619.45)
**VGI Global Media PCL** (VGI.BK, Bt8.35, NEUTRAL, TP Bt9.5)
**Wipro Ltd.** (WIPR.BO, Rs574.95, OUTPERFORM, TP Rs650.0)

# Disclosure Appendix

## Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

## As of December 10, 2012 Analysts' stock rating are defined as follows:

**Outperform (O) :** The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

**Neutral (N) :** The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

**Underperform (U) :** The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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**Market Weight :** The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

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**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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|---|---|---|
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| Neutral/Hold* | 41% | (48% banking clients) |
| Underperform/Sell* | 14% | (43% banking clients) |
| Restricted | 3% | |

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