

Some sequential improvement

## Volume growth pickup still awaited; maintain Neutral on rich valuation

October 30, 2012

<b>Rating</b> Remains	<b>Neutral</b>
<b>Target price</b> Increased from 3455	INR 3800
<b>Closing price</b> October 26, 2012	INR 3923
<b>Potential downside</b>	-3.1%

### Action: No sign of a meaningful pick-up yet; maintain Neutral

While 5-6% volume growth in Q2FY13 surprised the Street and us positively, it remains well below the company's historical long-term (five-year) average. While we expect a sequential pick-up in volume growth in Q3, part of this should be driven by the timing of the festive season, while underlying volume growth is likely to remain modest. Given that the stock is currently trading at 28.4x FY14F earnings and with uncertainty of any triggers for consensus earnings estimate hikes in the near term, we maintain our Neutral rating. We hike our TP to INR3,800 as we roll forward, with no changes to our earnings estimates or multiples.

### Catalyst: Strong festive season demand and a fall in input prices

We see two possible catalysts: 1) a strong pick-up in volume growth driven by the festive season; and 2) a fall in commodity costs. However, we believe both these potential catalysts lack meaningful traction in the near term, which means that a hike in consensus earnings estimates is unlikely.

### Valuation: APNT trades at 28.4x FY14F, in line with sector average

We estimate that APNT will report ~20% earnings growth in FY14-15F. Given the slowdown in discretionary spend, we do not see an upside risk to its earnings in the near term. After the recent share price run (APNT up +8% vs. BSE FMCG index up +7% since August 31, 2012), the stock currently trades at 28.4x FY14F earnings, in line with the sector market cap-weighted average of 27.6x. We hike our TP as we roll forward but retain our earnings estimates. We believe that the stock is fairly valued at current levels.

### Anchor themes

We expect the Indian paints industry to grow at 18-20% in value terms over the medium term. Asian Paints, as a market leader, should be a key beneficiary of this growth.

### Nomura vs consensus

Our earnings estimates for both FY13F and FY14F are 4% less than consensus. We expect FY13F earnings growth to be in the mid-teens and a modest volume growth recovery.

### Research analysts

#### India Consumer Related

**Manish Jain - NFASL**  
[manish.jain@nomura.com](mailto:manish.jain@nomura.com)  
 +91 22 4037 4186

**Anup Sudhendranath - NSFSP**  
[anup.sudhendranath@nomura.com](mailto:anup.sudhendranath@nomura.com)  
 +91 22 4037 5406

31 Mar	FY12		FY13F		FY14F		FY15F	
	Actual	Old	New	Old	New	Old	New	
Currency (INR)								
<b>Revenue (mn)</b>	95,983	108,372	108,372	128,406	128,406	151,062	151,062	
<b>Reported net profit (mn)</b>	9,887	11,051	11,051	13,271	13,271	15,947	15,947	
<b>Normalised net profit (mn)</b>	9,552	11,051	11,051	13,271	13,271	15,947	15,947	
<b>FD normalised EPS</b>	99.58	115.21	115.21	138.35	138.35	166.26	166.26	
<b>FD norm. EPS growth (%)</b>	13.9	15.7	15.7	20.1	20.1	20.2	20.2	
<b>FD normalised P/E (x)</b>	39.4	N/A	34.1	N/A	28.4	N/A	23.6	
<b>EV/EBITDA (x)</b>	24.7	N/A	21.3	N/A	17.6	N/A	14.6	
<b>Price/book (x)</b>	13.4	N/A	11.2	N/A	9.3	N/A	7.8	
<b>Dividend yield (%)</b>	1.2	N/A	1.5	N/A	1.7	N/A	2.1	
<b>ROE (%)</b>	39.3	35.9	35.9	35.9	35.9	36.0	36.0	
<b>Net debt/equity (%)</b>	net cash	net cash	net cash	net cash	net cash	net cash	net cash	

Source: Company data, Nomura estimates

**Key company data:** See page 2 for company data and detailed price/index chart.

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

# Key data on Asian Paints

## Income statement (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
<b>Revenue</b>	<b>77,063</b>	<b>95,983</b>	<b>108,372</b>	<b>128,406</b>	<b>151,062</b>
Cost of goods sold	-46,460	-59,630	-66,678	-79,004	-92,944
<b>Gross profit</b>	<b>30,603</b>	<b>36,353</b>	<b>41,694</b>	<b>49,402</b>	<b>58,118</b>
SG&A	-13,780	-17,217	-19,506	-22,960	-26,732
Employee share expense	-4,540	-5,260	-6,247	-7,306	-8,529
<b>Operating profit</b>	<b>12,283</b>	<b>13,876</b>	<b>15,942</b>	<b>19,136</b>	<b>22,857</b>
<b>EBITDA</b>	<b>13,415</b>	<b>15,088</b>	<b>17,336</b>	<b>20,989</b>	<b>25,130</b>
Depreciation	-1,131	-1,211	-1,394	-1,853	-2,273
Amortisation	0	0	0	0	0
EBIT	12,283	13,876	15,942	19,136	22,857
Net interest expense	-222	-410	-403	-403	-403
Associates & JCEs					
Other income	495	739	820	820	950
<b>Earnings before tax</b>	<b>12,556</b>	<b>14,205</b>	<b>16,359</b>	<b>19,553</b>	<b>23,404</b>
Income tax	-3,789	-4,335	-4,989	-5,964	-7,138
<b>Net profit after tax</b>	<b>8,767</b>	<b>9,870</b>	<b>11,369</b>	<b>13,589</b>	<b>16,266</b>
Minority interests	-381	-319	-319	-319	-319
Other items					
Preferred dividends	0	0	0	0	0
<b>Normalised NPAT</b>	<b>8,386</b>	<b>9,552</b>	<b>11,051</b>	<b>13,271</b>	<b>15,947</b>
Extraordinary items	46	336	0	0	0
<b>Reported NPAT</b>	<b>8,433</b>	<b>9,887</b>	<b>11,051</b>	<b>13,271</b>	<b>15,947</b>
Dividends	-3,571	-4,459	-5,470	-6,561	-7,878
<b>Transfer to reserves</b>	<b>4,862</b>	<b>5,428</b>	<b>5,581</b>	<b>6,710</b>	<b>8,070</b>

## Valuation and ratio analysis

Reported P/E (x)	44.6	38.1	34.1	28.4	23.6
Normalised P/E (x)	44.9	39.4	34.1	28.4	23.6
FD normalised P/E (x)	44.9	39.4	34.1	28.4	23.6
FD normalised P/E at price target (x)	39.5	34.7	30.0	25.0	20.8
Dividend yield (%)	0.9	1.2	1.5	1.7	2.1
Price/cashflow (x)	40.8	52.2	34.8	26.3	21.8
Price/book (x)	16.8	13.4	11.2	9.3	7.8
EV/EBITDA (x)	27.7	24.7	21.3	17.6	14.6
EV/EBIT (x)	30.3	26.9	23.2	19.3	16.0
Gross margin (%)	39.7	37.9	38.5	38.5	38.5
EBITDA margin (%)	17.4	15.7	16.0	16.3	16.6
EBIT margin (%)	15.9	14.5	14.7	14.9	15.1
Net margin (%)	10.9	10.3	10.2	10.3	10.6
Effective tax rate (%)	30.2	30.5	30.5	30.5	30.5
Dividend payout (%)	42.3	45.1	49.5	49.4	49.4
Capex to sales (%)	3.1	4.8	1.7	5.5	4.6
Capex to depreciation (x)	2.1	3.8	1.3	3.8	3.1
ROE (%)	42.5	39.3	35.9	35.9	36.0
ROA (pretax %)	32.4	30.2	29.9	32.0	32.2

## Growth (%)

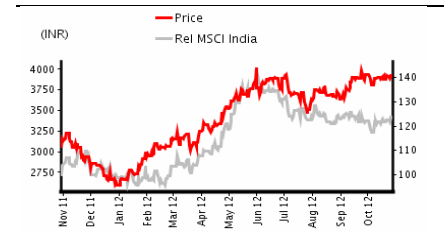
Revenue	15.3	24.6	12.9	18.5	17.6
EBITDA	7.3	12.5	14.9	21.1	19.7
EBIT	5.2	13.0	14.9	20.0	19.4
Normalised EPS	10.9	13.9	15.7	20.1	20.2
Normalised FDEPS	10.9	13.9	15.7	20.1	20.2

## Per share

Reported EPS (INR)	87.91	103.08	115.21	138.35	166.26
Norm EPS (INR)	87.43	99.58	115.21	138.35	166.26
Fully diluted norm EPS (INR)	87.43	99.58	115.21	138.35	166.26
Book value per share (INR)	233.05	291.89	350.07	419.86	503.64
DPS (INR)	37.22	46.49	57.03	68.40	82.13

Source: Company data, Nomura estimates

## Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	0.8	13.1	27.8
Absolute (USD)	0.6	18.3	18.2
Relative to index	1.5	1.0	20.9
Market cap (USDmn)	7,024.1		
Estimated free float (%)	50.0		
52-week range (INR)	4191/2550		
3-mth avg daily turnover (USDmn)	5.14		
Major shareholders (%)			
LIC of India	6.8		
Genesys Indian Investment Company	3.6		

Source: Thomson Reuters, Nomura research

## Notes

**Cashflow (INRmn)**

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F	Notes
EBITDA	13,415	15,088	17,336	20,989	25,130	
Change in working capital	-1,602	-2,139	-1,963	-1,134	-1,283	
Other operating cashflow	-2,590	-5,745	-4,572	-5,547	-6,591	
<b>Cashflow from operations</b>	<b>9,223</b>	<b>7,204</b>	<b>10,801</b>	<b>14,308</b>	<b>17,256</b>	
Capital expenditure	-2,400	-4,572	-1,829	-7,000	-7,000	
<b>Free cashflow</b>	<b>6,823</b>	<b>2,632</b>	<b>8,971</b>	<b>7,308</b>	<b>10,256</b>	
Reduction in investments	1,951	742	0	0	0	
Net acquisitions	0	0	0	0	0	
Reduction in other LT assets	0	0	0	0	0	
Addition in other LT liabilities	0	0	0	0	0	
Adjustments	0	0	0	0	0	
<b>Cashflow after investing acts</b>	<b>8,774</b>	<b>3,374</b>	<b>8,971</b>	<b>7,308</b>	<b>10,256</b>	
Cash dividends	-3,571	-4,459	-5,470	-6,561	-7,878	
Equity issue	0	0	0	0	0	
Debt issue	0	1,066	0	0	0	
Convertible debt issue	0	0	0	0	0	
Others	0	0	0	0	0	
<b>Cashflow from financial acts</b>	<b>-3,570</b>	<b>-3,393</b>	<b>-5,470</b>	<b>-6,561</b>	<b>-7,878</b>	
<b>Net cashflow</b>	<b>5,204</b>	<b>-19</b>	<b>3,501</b>	<b>747</b>	<b>2,379</b>	
Beginning cash	1,058	6,262	6,243	9,744	10,491	
Ending cash	6,262	6,243	9,744	10,491	12,869	
Ending net debt	-3,970	-2,884	-6,385	-7,132	-9,510	

Source: Company data, Nomura estimates

**Balance sheet (INRmn)**

As at 31 Mar	FY11	FY12	FY13F	FY14F	FY15F	Notes
Cash & equivalents	6,262	6,243	9,744	10,491	12,869	
Marketable securities	0	0	0	0	0	
Accounts receivable	5,731	7,813	8,072	9,564	11,252	
Inventories	13,054	15,989	17,759	21,042	24,754	
Other current assets	3,237	6,194	5,812	6,886	8,101	
<b>Total current assets</b>	<b>28,284</b>	<b>36,238</b>	<b>41,387</b>	<b>47,983</b>	<b>56,977</b>	
LT investments	4,290	3,547	3,547	3,547	3,547	
Fixed assets	13,160	18,761	19,196	24,344	29,071	
Goodwill	0	0	0	0	0	
Other intangible assets	0	0	0	0	0	
Other LT assets	0	0	0	0	0	
<b>Total assets</b>	<b>45,734</b>	<b>58,547</b>	<b>64,131</b>	<b>75,874</b>	<b>89,595</b>	
Short-term debt	0	0	0	0	0	
Accounts payable	16,321	21,374	20,988	24,868	29,255	
Other current liabilities	3,668	4,449	4,520	5,356	6,301	
<b>Total current liabilities</b>	<b>19,989</b>	<b>25,823</b>	<b>25,508</b>	<b>30,224</b>	<b>35,556</b>	
Long-term debt	2,292	3,359	3,359	3,359	3,359	
Convertible debt	0	0	0	0	0	
Other LT liabilities	0	0	0	0	0	
<b>Total liabilities</b>	<b>22,281</b>	<b>29,182</b>	<b>28,867</b>	<b>33,582</b>	<b>38,915</b>	
Minority interest	1,099	1,367	1,685	2,020	2,371	
Preferred stock	0	0	0	0	0	
Common stock	959	959	959	959	959	
Retained earnings						
Proposed dividends						
Other equity and reserves	21,395	27,039	32,620	39,313	47,350	
<b>Total shareholders' equity</b>	<b>22,354</b>	<b>27,998</b>	<b>33,579</b>	<b>40,273</b>	<b>48,310</b>	
<b>Total equity &amp; liabilities</b>	<b>45,734</b>	<b>58,547</b>	<b>64,131</b>	<b>75,874</b>	<b>89,595</b>	

**Liquidity (x)**

Current ratio	1.42	1.40	1.62	1.59	1.60
Interest cover	55.3	33.9	39.6	47.5	56.7

**Leverage**

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

**Activity (days)**

Days receivable	26.4	25.8	26.7	25.1	25.1
Days inventory	88.8	89.1	92.4	89.6	89.9
Days payable	118.3	115.7	115.9	105.9	106.3
Cash cycle	-3.1	-0.7	3.2	8.8	8.8

Source: Company data, Nomura estimates

## Q2FY13 results were largely in line

Asian Paints' Q2FY13 results were marginally below our and Street estimates at the consolidated level. Gross margins declined by 10bps at the consolidated level, driven by a weak product mix. This was against our and consensus expectation of a rise in gross margins on the back of a fall in commodity cost. This was a disappointment.

### Key highlights of the quarterly results:

- Consolidated revenue increased by 16.2%, which was marginally better than our expectations. This was driven by pricing, although volume growth has shown some recovery on a sequential basis.
- The domestic business registered revenue growth of 15.8% y-y, which means volume growth was in the 5-6% range. This clearly shows some recovery in volume growth momentum on a sequential basis, but still well below the long-term (five-year) historical average.
- Consolidated EBITDA margins stood at 13.8%, which were down by 50bps on a y-y basis, against our expectation of flat margins.
- PAT came in 2% lower than our estimates on the back of softer-than-expected margin performance on a y-y basis.

Fig. 1: Q2FY13 consolidated results highlights

(INR mn)	Sep-12	Sep-11	YoY % Chg	Jun-12	QoQ % Chg
Net Sales	26,160	22,508	16.2	25,393	3.0
EBIDTA	3,612	3,229	11.9	4,379	(17.5)
Other income	422	292	44.4	326	29.4
PBIDT	4,034	3,521	14.6	4,705	(14.3)
Depreciation	357	300	19.2	334	6.9
Interest	122	88	37.7	109	11.9
PBT	3,555	3,133	13.5	4,262	(16.6)
Tax	1,041	955	9.0	1,273	(18.2)
Minority Interest	122	91	34.2	106	15.9
Reported PAT	2,392	2,087	14.6	2,884	(17.1)
No. of shares (mn)	96	96		96	
EPS (INR)	24.9	21.8		30.1	
EBIDTA margins (%)	13.8	14.3		17.2	
PBIDT margins (%)	15.4	15.6		18.5	

Source: Company, Nomura research

## Feedback from the conference call

- **No pricing action in Q2FY13:** As input prices have started easing, the company has avoided any meaningful price hikes in the quarter.
- **Input prices starting to ease:** Input prices, particularly titanium, started to ease during the quarter and as a basket have remained largely flat on a sequential basis. However, compared with the average FY12 levels, they were up ~7% in Q2FY13.
- **Demand conditions remain challenging:** Demand conditions in the decorative segment remain weak across the country given the weak economic environment. However, the upcoming festive season does provide some hope and the company believes that Q3FY13 could see some pick-up in demand.
- **Lower-end paints seeing challenge:** Distempers are facing a stiff challenge, especially from smaller unorganised players. While this has resulted in an improved

mix and thus higher gross margins, from a long-term perspective, it remains a key concern.

- **Industrial business facing sluggish growth:** Industrial business, including the automotive OE business, is facing a significant slowdown given the: a) sluggish economic environment, and b) a general investment slowdown leading to lower capex.

## What are the key catalysts to watch for?

As we highlighted in our note, “*Near-term challenges cloud LT attractions*”, published on August 1, 2012, the key variable to watch remains any pickup in volume growth trends in the domestic business. While there has been some pick up in volume growth sequentially, it was not enough to provide any upside to our estimates. Most of the surprise in volume growth in Q2 was offset by the lower-than-expected gross margins benefit, which means that the net impact was largely neutral. Discretionary spend continues to be under pressure, and in that background, we do not expect a sharp uptick in demand in the near term. The festive season this year is more towards Q3, which means Q3 numbers should look better on a y-y basis, although this is already discounted in the stock price, in our view. Though volume growth in the domestic business and trends in raw material prices are key variables to watch out for in the near term, both are not signalling any sharp turnaround, in our view.

## Where are we on our earnings estimates vs. consensus?

Based on our volume growth expectations mentioned above, we believe that there is unlikely to be any meaningful hike in our or consensus estimates. We are 4% below consensus for FY13-FY14F earnings estimates, and see some modest risk to consensus earnings estimates into H2FY13. The stock is currently trading at 28.4x FY14F earnings, which is largely in line with the sector market cap-weighted average of 27.6x, but given the earnings growth trajectory is unlikely to show any improvement in the near term, we see some risk to a multiple de-rating as well in the near term. Q3FY12 performance will be key for the company, in our view. If volume growth does not surprise significantly, there remains a risk to both our earnings and P/E multiple estimates.

Fig. 2: Sector valuations

Company	Ticker	Rating	Price INR	EPS growth FY14E %	FY13E P/E	FY14E P/E	FY14E PEG	Market Cap US\$ mn
Nestle *	NEST IN	Neutral	4,672	22%	37.4x	30.6x	1.4x	8,662
GSK Consumer *	SKB IN	Buy	3,004	20%	29.6x	24.6x	1.2x	2,432
Jubilant Foodworks	JUBI IN	Buy	1,289	38%	52.1x	37.7x	1.0x	1,600
United Spirits	UNSP IN	Neutral	1,095	20%	39.5x	32.8x	1.6x	2,645
<b>F&amp;B Average</b>					<b>38.1x</b>	<b>30.8x</b>		
Colgate Palmolive	CLGT IN	Reduce	1,239	14%	33.1x	28.9x	2.0x	3,240
Dabur	DABUR IN	Buy	125	20%	28.3x	23.5x	1.1x	4,198
Godrej Consumer	GCPL IN	Buy	712	24%	31.3x	25.2x	1.0x	4,661
Hindustan Unilever	HUVR IN	Neutral	546	16%	36.7x	31.6x	1.9x	22,700
Marico	MRCO IN	Neutral	207	21%	30.4x	25.2x	1.2x	2,448
Emami	HMN IN	Buy	571	18%	27.1x	23.0x	1.3x	1,662
<b>HPC Average</b>					<b>34.1x</b>	<b>29.0x</b>		
ITC	ITC IN	Buy	288	18%	31.0x	26.3x	1.5x	43,347
Asian Paints	APNT IN	Neutral	3,233	20%	28.1x	23.4x	1.2x	5,963
Titan Industries	TTAN IN	Buy	267	28%	29.1x	22.8x	0.8x	4,557

Source: Bloomberg, Nomura estimates. Share price as on October 29, 2012. \*Calendar year-based estimates

## Rolling forward our TP, no change in earnings estimates or target multiples

We increase our TP from INR3,455 to INR 3,800 as we roll forward our TP timeframe to FY14-FY15 average EPS (25x FY13F EPS earlier). There are no changes to our earnings estimates or the valuation multiples. We value APNT at 25x average FY14-FY15 EPS of INR152.1, which is at a 4% premium to other consumer stocks under our coverage universe. Our TP valuation methodology is unchanged. We believe that our valuation is justified as APNT will likely deliver higher-than-sector average growth in the long term.

## Maintain Neutral

We maintain our Neutral rating on the stock at the current share price levels. We expect some pick-up in volume growth in Q3, although the quantum may disappoint the Street. However, looking at Asian Paints and the Indian paints industry from a medium-term perspective, we continue to like the industry dynamics and Asian Paints' position within the industry. Asian Paints is a domestic market leader in the paints segment in India and over the past six years has gained a further 11% market share to 53.2% vs. its peers. In the long term, the rising income profile of customers, an increasing propensity to use paint for decoration and an increasing number of households are factors that we believe will support earnings growth for the company. Over the medium- to long-term, APNT should be able to deliver high-teen percentage revenue growth as we believe that the paints industry remains underpenetrated. We believe that Asian Paints has one of the best management teams in the consumer industry, which we see as a key strength for the company.

# Appendix A-1

## Analyst Certification

We, Manish Jain and Anup Sudhendranath, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Issuer Specific Regulatory Disclosures

The term "Nomura Group Company" used herein refers to Nomura Holdings, Inc. or any affiliate or subsidiary of Nomura Holdings, Inc. Nomura Group Companies involved in the production of Research are detailed in the disclaimer below.

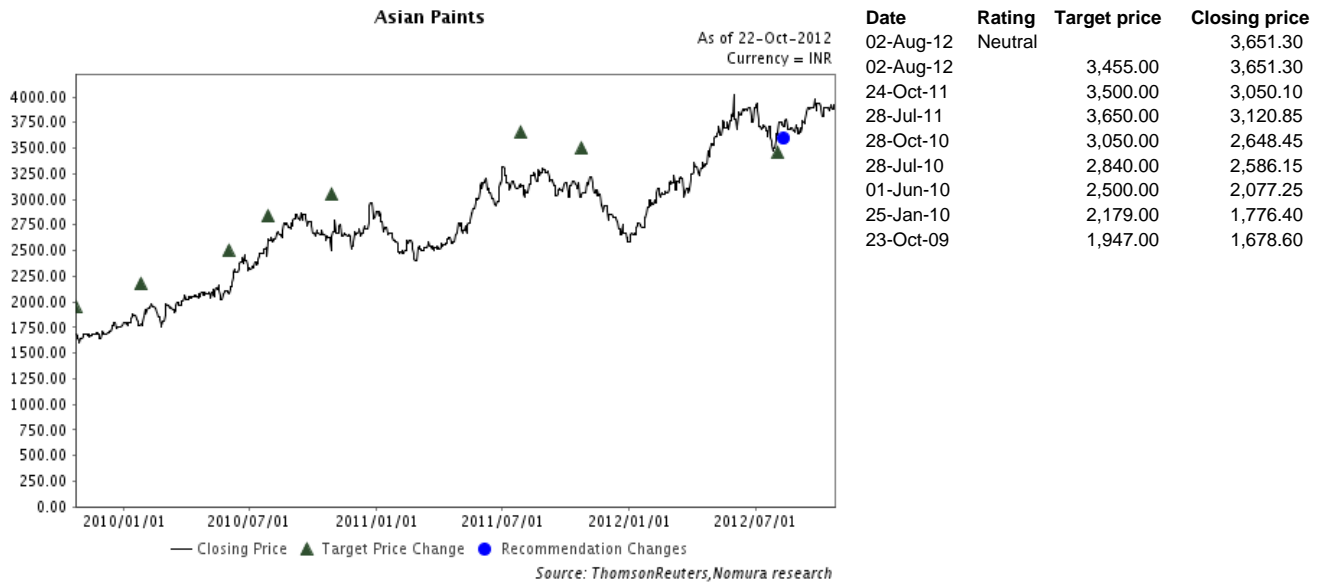
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Asian Paints	APNT IN	INR 3923	26-Oct-2012	Neutral	Not rated	

## Previous Rating

Issuer name	Previous Rating	Date of change
Asian Paints	Buy	02-Aug-2012

### Asian Paints (APNT IN) INR 3923 (26-Oct-2012) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our target price is INR3,800. We value Asian Paints at 25x average FY14F and FY15F EPS of INR152.1. Our target multiple of 25x is a 4% premium to other consumer stocks as we believe longer term APNT has the potential to deliver higher-than-average earnings growth.

**Risks that may impede the achievement of the target price** A sharp increase in input prices could mean potential downside risk to our earnings estimates. Upside risk to our estimate comes from higher volume growth and a sharper-than-expected decline in input costs. We believe in the near term, there is a more of a downward risk to the numbers, and hence our more cautious stance. However, we consider the company to be well prepared to deal with an increase in input prices by way of price hikes in the near term.



## Important Disclosures

### Online availability of research and conflict-of-interest disclosures

Nomura research is available on [www.nomuranow.com/research](http://www.nomuranow.com/research), Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne. Important disclosures may be read at <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx> or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email [grpsupport-eu@nomura.com](mailto:grpsupport-eu@nomura.com) for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Any authors named in this report are research analysts unless otherwise indicated. *Industry Specialists* identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear. *Marketing Analysts* identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura's Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

### Distribution of ratings (Global)

The distribution of all ratings published by Nomura Global Equity Research is as follows:

43% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 40% of companies with this rating are investment banking clients of the Nomura Group\*.

45% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Nomura Group\*.

12% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 22% of companies with this rating are investment banking clients of the Nomura Group\*.

As at 30 September 2012. \*The Nomura Group as defined in the Disclaimer section at the end of this report.

### Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

#### STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

Benchmarks are as follows: **United States/Europe**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

#### SECTORS

A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

### Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

#### STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc. A '**Buy**' recommendation indicates that potential upside is 15% or more. A '**Neutral**' recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce**' recommendation indicates that potential downside is 5% or more. A rating of '**Suspended**' indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company. Securities and/or companies that are labelled as '**Not rated**' or shown as '**No rating**' are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

#### SECTORS

A '**Bullish**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish**' rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

### Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.



## Disclaimers

This document contains material that has been prepared by the Nomura entity identified at the top or bottom of page 1 herein, if any, and/or, with the sole or joint contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or identified elsewhere in the document. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the 'Nomura Group'), include: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('Nlplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at <http://dis.kofia.or.kr>); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia ('PTNI'), Indonesia; Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034); Nlplc, Madrid Branch ('Nlplc, Madrid') and Nlplc, Italian Branch ('Nlplc, Italy'). 'CNS Thailand' next to an analyst's name on the front page of a research report indicates that the analyst is employed by Capital Nomura Securities Public Company Limited ('CNS') to provide research assistance services to NSL under a Research Assistance Agreement. CNS is not a Nomura entity.

THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.

Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by Nomura group are hereby excluded and Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Nomura Group does not provide tax advice.

Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. Nomura Group companies may also act as market maker or liquidity provider (as defined within Financial Services Authority ('FSA') rules in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. ('MSCI'). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates. Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. Nomura Group publishes research product in a number of different ways including the posting of product on Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements. Clients outside of the US may access the Nomura Research Trading Ideas platform (Retina) at <http://go.nomuranow.com/equities/tradingideas/retina/>. Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

The securities described herein may not have been registered under the US Securities Act of 1933 (the '1933 Act'), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK and European Economic Area as investment research by Nlplc, which is authorized and regulated by the FSA and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are 'eligible counterparties' or 'professional clients' as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

This document has not been approved for distribution in the Kingdom of Saudi Arabia ('Saudi Arabia') or to clients other than 'professional clients' in the United Arab Emirates ('UAE') by Nomura Saudi Arabia, Nlplc or any other member of Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or to any person located in Saudi Arabia or to clients other than 'professional clients' in the UAE. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are a 'professional client' in the UAE and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia.

NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF NOMURA GROUP. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

**Additional information is available upon request and disclosure information is available at the Nomura Disclosure web**

**page:** <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>

Copyright © 2012 Nomura International (Hong Kong) Ltd. All rights reserved.