

### Price hikes to improve margins-Upgrade to Accumulate

November 1, 2011

Reco	Previous Reco
Accumulate	Hold
CMP	Target Price
Rs1,184	Rs1,290
EPS change CY11E/12E (%)	-3.3 / +2.8
Target Price change (%)	+17.3
Nifty	5,258
Sensex	17,481

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	8	17	10	17
Rel. to Nifty	1	23	16	36

Source: Bloomberg

#### Relative Price Chart



Source: Bloomberg

#### Stock Details

Sector	Cement
Bloomberg	ACC@IN
Equity Capital (Rs mn)	1877
Face Value(Rs)	10
No of shares o/s (mn)	188
52 Week H/L	1,230/917
Market Cap (Rs bn/USD mn)	222/4,505
Daily Avg Volume (No of sh)	318947
Daily Avg Turnover (US\$m)	6.9

#### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	50.3	50.3	49.3
FII/NRI	16.6	15.7	15.3
Institutions	14.5	15.2	15.5
Private Corp	4.2	4.0	4.9
Public	14.4	14.9	15.1

Source: Capitaline

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- **EBITDA of Rs2.2bn (+30% yoy) below est dragged by higher P&F costs (Rs972/t +30% yoy) & higher other expenses (Rs5.2bn vs est of Rs4.78bn). Total cost/t up 12% at Rs3394**
- **Revenues in line- up 31.3% yoy fuelled by 18% volume growth and 11.5% jump in realizations (led by minimal seasonal drop in prices in south , 20% of ACC's sales)**
- **Downgrade CY11EPS by 2.4% led by higher costs. However momentum in cement price hikes (Oct-11 prices already up Rs18-20/bag from Q3CY11 avg) lead to higher exit realizations driving 2.8% upgrade in CY12 earnings**
- **Introduce CY13 EPS at Rs87. Improving margins with minimal capex to drive significant FCF & healthy volume growth to improve return ratios. Upgrade to Accumulate -revised target to Rs1290 by rolling over valuations to CY13**

#### Cost pressures spoil the impressive topline performance

As expected ACC delivered a solid Q3CY11 topline performance-18% yoy volume growth & 11.5% yoy jump in realizations boosting 31.3% yoy revenue growth (revenues of Rs21.5bn). Even though cement prices across all regions witnessed sharp seasonal declines, they remained firm in the southern region (as opposed to the drop seen in Q3CY10) helping realizations jump 11.5% yoy to Rs3782/t. Volumes at 5.7 mnt grew 18% yoy on the back of low base and stabilizations of ACC's new capacities at Karnataka & Maharashtra. However ACC's solid topline performance was marred by unrelenting cost pressures, as its total cost/t increased 12% yoy and 8.6% qoq to Rs3394/t. This restricted EBITDA growth to 29.7% (lower than the topline growth of 31.3%) with EBITDA at Rs2.2bn coming in below estimates (Rs2.7bn). Higher other expenses and P&F costs were key negative surprises. P&F cost increased by 30% yoy to Rs972/t (vs estimates of Rs940/t) as international coal prices remained inflated along with higher grid power tariff. Other expenses increased 21% yoy to Rs5.2bn (vs estimates of Rs4.7bn). Consequently EBITDA/t at Rs388, though up 10.2% yoy, was lower than estimates of Rs475.

#### Higher other income & lower tax rate boost 36% APAT growth

Other income saw a 33% jump driven by higher cash on books & higher yield on investments. This coupled with lower tax rate (27.5%) helped ACC's profit growth of 36% with APAT of Rs1.23bn (below estimates of Rs1.55bn). Reported net profit at Rs1.67bn, up 67.5% yoy, includes Rs617mn of incentives and sales tax write back pertaining to earlier years (treated extraordinary).

#### Recent hikes to cushion impact of cost push-Upgrade CY12 EPS by 2.8%

Though ACC's profitability for the quarter has been adversely affected by sharp increase in costs, we expect sequential improvement in margins led by sharp increase in cement prices. The uptick in prices which started in Sept-11 has gained momentum & as of Oct-11 all India cement prices at Rs265 are already up Rs18-20/bag from Q3CY11 average of Rs247/bag. Though higher costs have led to a 2.4% EPS downgrade for CY11, our numbers for CY12 are upgraded by +2.8% driven by recent price hikes leading to higher CY11 exit prices.

#### Financial Snapshot

Y/E	Net sales	EBIDTA (Rs Mn)	(%)	PAT (Rs Mn)	EPS (Rs)	EPS Chg (%)	ROE (%)	PE (x)	EV/EBIDTA	EV/T (USD)
Dec										
CY10	77,173	15,540	20.1	11,200	59.6	-30.3	17.9	18.5	12.2	134
CY11E	94,353	17,547	18.6	10,684	56.8	-4.6	15.7	19.4	10.4	130
CY12E	106,984	21,587	20.2	13,519	71.9	26.5	17.9	15.4	8.1	124
CY13E	119,082	25,589	21.5	16,455	87.6	21.7	19.1	12.6	6.4	116

## Result Table

Rs mn	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	YTD'CY11	YTD'CY10	YoY(%)
<b>Revenue</b>	<b>16,372</b>	<b>19,576</b>	<b>23,982</b>	<b>24,030</b>	<b>21,500</b>	<b>31.3</b>	<b>-10.5</b>	<b>69,512</b>	<b>57,597</b>	<b>20.7</b>
<b>Expenditure</b>	<b>14,673</b>	<b>16,776</b>	<b>18,439</b>	<b>18,527</b>	<b>19,296</b>	<b>31.5</b>	<b>4.1</b>	<b>56,262</b>	<b>44,146</b>	<b>27.4</b>
<i>as % of sales</i>	89.6	85.7	76.9	77.1	89.7			80.9	76.6	
Consumption of RM	2,493	3,429	3,692	3,813	3,628	45.5	-4.9	11,133	7,803	42.7
<i>as % of sales</i>	15.2	17.5	15.4	15.9	16.9			16.0	13.5	
Stocks	560.6	-964.1	-64.2	-1,094.5	-145.4	-125.9	-86.7	-1,304.1	398.3	-427.4
<i>as % of sales</i>	3.4	(4.9)	(0.3)	(4.6)	(0.7)			(1.9)	0.7	
Employee Cost	1174	1486	1123	1197	1382	17.8	15.5	3702	3133	18.2
<i>as % of sales</i>	7.2	7.6	4.7	5.0	6.4			5.3	5.4	
Power & Fuel	3,615	4,513	4,785	5,687	5,524	52.8	-2.9	15,996	11,474	39.4
<i>as % of sales</i>	22.1	23.1	20.0	23.7	25.7			23.0	19.9	
Cost of traded cement	258	357	490	435	357	38.4	-17.9	1,282	819	56.4
<i>as % of sales</i>	1.6	1.8	2.0	1.8	1.7			1.8	1.4	
Freight	2,255	2,995	3,443	3,482	3,329	47.6	-4.4	10,253	7,708	33.0
<i>as % of sales</i>	13.8	15.3	14.4	14.5	15.5			14.8	13.4	
Other expenditure	4316	4961	4972	5008	5221	21.0	4.2	15201	12810	18.7
<i>as % of sales</i>	26.4	25.3	20.7	20.8	24.3			41.6	41.2	0.8
<b>EBITDA</b>	<b>1,699</b>	<b>2,800</b>	<b>5,542</b>	<b>5,503</b>	<b>2,204</b>	<b>29.7</b>	<b>-59.9</b>	<b>13,250</b>	<b>13,451</b>	<b>-1.5</b>
Depreciation	911	1119	1125	1158	1199	31.7	3.5	3483	2807	24.0
<b>EBIT</b>	<b>789</b>	<b>1681</b>	<b>4417</b>	<b>4345</b>	<b>1005</b>	<b>27.5</b>	<b>-76.9</b>	<b>9767</b>	<b>10644</b>	<b>-8.2</b>
Other Income	709	910	669	771	944	33.1	22.4	2384	1915	24.5
Interest	162	137	253	271	253	56.1	-6.5	777	431	80.6
<b>PBT</b>	<b>1335</b>	<b>2453</b>	<b>4833</b>	<b>4845</b>	<b>1695</b>	<b>27.0</b>	<b>-65.0</b>	<b>11373</b>	<b>12128</b>	<b>-6.2</b>
Total Tax	435	647	1327	1479	467	7.4	-68.4	3273	3587	-8.8
<b>Adjusted PAT</b>	<b>900</b>	<b>1806</b>	<b>3507</b>	<b>3366</b>	<b>1228</b>	<b>36.4</b>	<b>-63.5</b>	<b>8101</b>	<b>8541</b>	<b>-5.2</b>
(Profit)/loss from JV's/Ass/MI								0	0	
<b>PAT after MI</b>	<b>900</b>	<b>1806</b>	<b>3507</b>	<b>3366</b>	<b>1228</b>	<b>36.4</b>	<b>-63.5</b>	<b>8101</b>	<b>8541</b>	<b>-5.2</b>
<b>Extra ordinary items</b>	<b>100</b>	<b>753</b>	<b>0</b>	<b>0</b>	<b>617</b>			<b>617</b>	<b>100</b>	
<b>Reported PAT</b>	<b>1000</b>	<b>2559</b>	<b>3507</b>	<b>3366</b>	<b>1676</b>	<b>67.5</b>	<b>-50.2</b>	<b>8548</b>	<b>8641</b>	<b>-1.1</b>
<b>Reported EPS</b>	<b>4.8</b>	<b>9.6</b>	<b>18.7</b>	<b>17.9</b>	<b>6.5</b>	<b>36.4</b>	<b>-63.5</b>	<b>43.2</b>	<b>45.5</b>	<b>-5.2</b>

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	10.4	14.3	23.1	22.9	10.3	-13	-1265	19.1	23.4	-429	
EBIT	4.8	8.6	18.4	18.1	4.7	-14	-1341	14.1	23.4	-930	
EBT	8.2	12.5	20.2	20.2	7.9	-27	-1227	16.4	3.3	1304	
PAT	5.5	9.2	14.6	14.0	5.7	21	-829	11.7	21.1	-940	
Effective Tax rate	32.6	26.4	27.5	30.5	27.5	-502	-298	28.8	22.5	630	

## Per tonne analysis

Rs/t	Q3CY10	Q4CY10	Q1CY11	Q2CY11	Q3CY11	YoY (%)	QoQ (%)	YTD'CY11	YTD'CY10	YoY(%)
Cement volumes	4.83	5.61	6.16	5.93	5.69	17.7	-4.1	17.78	15.68	13.4
Raw Material	516	611	599	643	638	23.6	-0.8	626	498	25.9
Stocks	116	-172	-10	-185	-26	-122.0	-86.1	-73	25	-388.9
Staff cost	243	265	182	202	243	0.0	20.5	208	200	4.2
Power & Fuel	748	804	777	959	972	29.8	1.3	900	732	23.0
Cost of traded cement	53	64	80	73	63	17.6	-14.3	72	52	38.0
Freight	467	534	559	587	586	25.4	-0.3	577	492	17.3
Other expenses	894	884	807	845	918	2.8	8.7	855	817	4.7
<b>Total Cost Per tonne</b>	<b>3038</b>	<b>2990</b>	<b>2993</b>	<b>3124</b>	<b>3394</b>	<b>11.7</b>	<b>8.6</b>	<b>3165</b>	<b>2815</b>	<b>12.4</b>
<b>EBIDTA/Ton</b>	<b>352</b>	<b>499</b>	<b>900</b>	<b>928</b>	<b>388</b>	<b>10.2</b>	<b>-58.2</b>	<b>745</b>	<b>858</b>	<b>-13.1</b>
<b>Realization</b>	<b>3390</b>	<b>3490</b>	<b>3893</b>	<b>4052</b>	<b>3782</b>	<b>11.6</b>	<b>-6.7</b>	<b>3911</b>	<b>3673</b>	<b>6.5</b>

**Earnings Revision Table**

	CY11E			CY12E			CY13E
	Earlier	Revised	change	Earlier	Revised	change	Introduced
Sales	92474	94353	2.0%	104241	106984	2.6%	119082
EBIDTA	17918	17547	-2.1%	21061	21587	2.5%	25589
EBIDTA (%)	19.4	18.6		20.2	20.2		21.5
Net Profit	11044	10684	-3.3%	13149	13519	2.8%	16455
EPS	58.8	56.8	-3.3%	70.0	71.9	2.8%	87.6

**Price hikes to improve margins-Upgrade to BUY with TP of Rs1290**

Though ACC Q3CY11 numbers were marred by severe cost pressures, we expect cost push intensity to peak over next couple of quarters. However the industry remains exposed to the risk of proposed new mining tax as it would increase the limestone mining costs by Rs75+80/t and it remains a potential dampener. Though the aggregate demand momentum is yet to pick up, we expect the same to happen over next 3-4 quarter led by improving individual housing demand and pick up in infra spending after a prolonged standstill.

We introduce CY13 numbers with EPS of Rs87 factoring in a moderate volume growth of 8.2% & a conservative 3% increase in ACC's ASPs. We expect ACC's margins to improve from CY11E levels of 18.6% to 21.5% by CY13. We expect Improving profitability with minimal capex to drive significant 18% free cash flow CAGR for ACC over CY11-13 (CY13E FCF/share of Rs81 as compared to Rs59 for CY11E). Continued volume growth momentum would ensure sweating of assets thereby improving RoCE from 20.8% in CY11E to 25% in CY13E. Given increasing FCF & improving return ratios we believe ACC's valuations at 6.4X EV/EBITDA and EV/Tonne of USD117 for CY13 numbers are reasonably attractive. Upgrade to Accumulate with revised target to Rs1290 by rolling over valuations to CY13.

## Financials

## Income Statement

Y/E, Dec (Rs. mn)	CY10	CY11E	CY12E	CY13E
<b>Net Sales</b>	<b>77,173</b>	<b>94,353</b>	<b>106,984</b>	<b>119,082</b>
Growth (%)	(3.9)	22.3	13.4	11.3
<b>Total Expenditure</b>	<b>61,634</b>	<b>76,806</b>	<b>85,397</b>	<b>93,493</b>
Raw Materials Cost	11,232	14,911	17,110	19,489
Employee Expenses	4,619	5,219	5,480	5,754
Power & Fuel cost	16,103	21,820	24,168	26,363
Freight & Handling	10,703	13,914	15,884	17,675
Others	18,977	20,942	22,755	24,212
<b>EBITDA</b>	<b>15,540</b>	<b>17,547</b>	<b>21,587</b>	<b>25,589</b>
Growth (%)	(37.3)	12.9	23.0	18.5
<b>EBITDA margin (%)</b>	<b>20.1</b>	<b>18.6</b>	<b>20.2</b>	<b>21.5</b>
Depreciation	3,927	4,709	5,084	5,201
<b>EBIT</b>	<b>11,613</b>	<b>12,838</b>	<b>16,503</b>	<b>20,388</b>
<b>EBIT margin (%)</b>	<b>15.0</b>	<b>13.6</b>	<b>15.4</b>	<b>17.1</b>
Other Income	3,569	3,295	3,595	3,845
Interest expenses	568	1,064	1,057	1,057
<b>PBT</b>	<b>14,615</b>	<b>15,069</b>	<b>19,041</b>	<b>23,176</b>
<b>Tax</b>	<b>3,414</b>	<b>4,385</b>	<b>5,522</b>	<b>6,721</b>
Effective tax rate (%)	23.4	29.1	29.0	29.0
<b>Adjusted PAT</b>	<b>11,200</b>	<b>10,684</b>	<b>13,519</b>	<b>16,455</b>
Growth (%)	(30.3)	(4.6)	26.5	21.7
<b>Net Margin (%)</b>	<b>14.5</b>	<b>11.3</b>	<b>12.6</b>	<b>13.8</b>
(Profit)/loss from JVs/Ass/MI				
<b>Adj. PAT After JVs/Ass/MI</b>	<b>11,200</b>	<b>10,684</b>	<b>13,519</b>	<b>16,455</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>11,200</b>	<b>10,684</b>	<b>13,519</b>	<b>16,455</b>
Growth (%)	(30.3)	(4.6)	26.5	21.7

## Cash Flow

Y/E, Dec (Rs. mn)	CY10	CY11E	CY12E	CY13E
<b>PBT (Ex-Other income)</b>	<b>11,045</b>	<b>11,774</b>	<b>15,446</b>	<b>19,331</b>
Depreciation	3,927	4,709	5,084	5,201
Interest Provided	568	1,064	1,057	1,057
Other Non-Cash items	976	0	0	0
Chg in working cap	4,690	-469	1,202	1,151
Tax paid	-3,414	-4,385	-5,522	-6,721
<b>Operating Cashflow</b>	<b>17,791</b>	<b>12,693</b>	<b>17,267</b>	<b>20,019</b>
Capital expenditure	-6,573	-3,872	-7,500	-7,500
<b>Free Cash Flow</b>	<b>11,218</b>	<b>8,821</b>	<b>9,767</b>	<b>12,519</b>
Other income	3,569	3,295	3,595	3,845
Investments	-2,270	0	0	0
<b>Investing Cashflow</b>	<b>1,299</b>	<b>3,295</b>	<b>3,595</b>	<b>3,845</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-431	1,854	-46	0
Interest Paid	-568	-1,064	-1,057	-1,057
Dividend paid (incl tax)	-6,668	-4,398	-4,398	-4,398
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-7,667</b>	<b>-3,607</b>	<b>-5,501</b>	<b>-5,455</b>
<b>Net chg in cash</b>	<b>4,851</b>	<b>8,508</b>	<b>7,861</b>	<b>10,909</b>
Opening cash position	7,464	10,800	19,308	27,169
<b>Closing cash position</b>	<b>10,800</b>	<b>19,308</b>	<b>27,169</b>	<b>38,078</b>

## Balance Sheet

Y/E, Dec (Rs. mn)	CY10	CY11E	CY12E	CY13E
Equity share capital	1,879	1,879	1,879	1,879
Reserves & surplus	62,815	69,101	78,223	90,280
<b>Net worth</b>	<b>64,695</b>	<b>70,981</b>	<b>80,102</b>	<b>92,159</b>
<b>Minority Interest</b>				
Secured Loans	5,099	7,000	7,000	7,000
Unsecured Loans	139	93	46	46
<b>Loan Funds</b>	<b>5,238</b>	<b>7,093</b>	<b>7,046</b>	<b>7,046</b>
Net deferred tax liability	3,615	3,615	3,615	3,615
<b>Total Liabilities</b>	<b>73,548</b>	<b>81,689</b>	<b>90,764</b>	<b>102,821</b>
Gross Block	80,770	95,270	100,270	107,770
Less: Depreciation	29,945	34,654	39,738	44,939
<b>Net block</b>	<b>50,824</b>	<b>60,615</b>	<b>60,531</b>	<b>62,830</b>
Capital work in progress	15,628	5,000	7,500	7,500
<b>Investment</b>	<b>17,027</b>	<b>17,027</b>	<b>17,027</b>	<b>17,027</b>
<b>Current Assets</b>	<b>27,534</b>	<b>38,061</b>	<b>47,731</b>	<b>60,373</b>
Inventories	9,150	11,187	12,684	14,119
Sundry debtors	1,783	2,327	2,638	2,936
Cash & bank balance	10,800	19,308	27,169	38,078
Loans & advances	5,239	5,239	5,239	5,239
Other current assets	561.2	0	0	0
<b>Current lia &amp; Prov</b>	<b>37,464</b>	<b>39,014</b>	<b>42,025</b>	<b>44,909</b>
Current liabilities	20,940	22,490	25,500	28,384
Provisions	16,525	16,525	16,525	16,525
<b>Net current assets</b>	<b>-9,931</b>	<b>(953)</b>	<b>5,706</b>	<b>15,464</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>73,548</b>	<b>81,689</b>	<b>90,764</b>	<b>102,821</b>

## Key Ratios

Y/E, Dec	CY10	CY11E	CY12E	CY13E
<b>Profitability (%)</b>				
EBITDA Margin	20.1	18.6	20.2	21.5
Net Margin	14.5	11.3	12.6	13.8
ROCE	21.3	20.8	23.3	25.0
ROE	17.9	15.7	17.9	19.1
RoIC	36.8	32.8	37.8	46.8
<b>Per Share Data (Rs)</b>				
EPS	59.6	56.8	71.9	87.6
CEPS	80.5	81.9	99.0	115.2
BVPS	344.2	377.7	426.2	490.4
DPS	30.4	20.0	20.0	20.0
<b>Valuations (x)</b>				
PER	18.5	19.4	15.4	12.6
P/CEPS	13.7	13.5	11.2	9.6
P/BV	3.2	2.9	2.6	2.3
EV / Sales	2.4	1.9	1.6	1.4
EV / EBITDA	12.2	10.4	8.1	6.4
Dividend Yield (%)	2.8	1.8	1.8	1.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.3	-0.4	-0.5	-0.5
Net Debt/EBIDTA	-0.4	-0.7	-0.9	-1.2
Working Cap Cycle (days)	-47.3	-34.7	-34.7	-34.7

**Recommendation History: ACC – ACC IN**

Date	Reports	Reco	CMP	Target
28/07/2011	<a href="#">ACC Q2CY11 Result Update</a>	Hold	1,020	1,100
26/04/2011	<a href="#">ACC Q1CY11 Result Update</a>	Hold	1,123	1,140
04/02/2011	<a href="#">ACC Q4CY10 Result Update</a>	Accumulate	986	1,035
21/10/2010	<a href="#">ACC Q3CY10 Result Update</a>	Accumulate	983	1,035

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
24/10/2011	<a href="#">Grasim Industries Q2FY12 Result Update</a>	Accumulate	2,362	2,700
20/10/2011	<a href="#">Ultratech Cement Q2FY12 Result Update</a>	Hold	1,111	1,170
19/10/2011	<a href="#">Cement Sector Update</a>			
30/08/2011	<a href="#">Shree Cement Management Meet Update</a>	Accumulate	1,641	2,050

**Emkay Global Financial Services Ltd.**

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