

February 4, 2009

**Compendium - Q3FY09 Results Analyses of leading  
STEEL COMPANIES IN INDIA**

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**Performance Highlights of Global Steel Industry**

Global steel production and prices have both collapsed June 2008 due to demand erosion, weakening growth in world trade, fall in new housing sales and increasing unemployment levels. The collaborated liquidity infusion by world central banks has provided little respite to a scenario of free falling steel prices.

**Production**

World crude steel production declined to 1329.7mn tonnes in 2008, a decrease of 1.2% over 2007. For the month of December 2008, the world steel output decreased by 24.3% y-o-y. India produced 4.5mn tonnes in December, down 5.1% from its peak of 4.74mn tonnes in August.

**Prices**

HRC prices (FOB US Midwest mill USD/s.ton) have sharply corrected from its peak of \$1090 during June 2008, to about \$510/s.ton, i.e., by 53.2%. China export HRC prices (FOB Shanghai) fell 44.7% to \$575/tonne, from the highs of \$1040/tonne.

Long product prices have not corrected as much as flat product prices. This is evident from prices of re-bar, merchant bar, beams and wire rod (FOB US midwest mill usd/s.ton) correcting by 40.9% from the peak to \$617.5, 12.1% to \$943, 27.0% to \$850 and 26.4% to \$890 respectively till date.

We expect steel prices to remain under pressure over the next 2-3 quarters for reasons as mentioned in the next para.

**Raw materials**

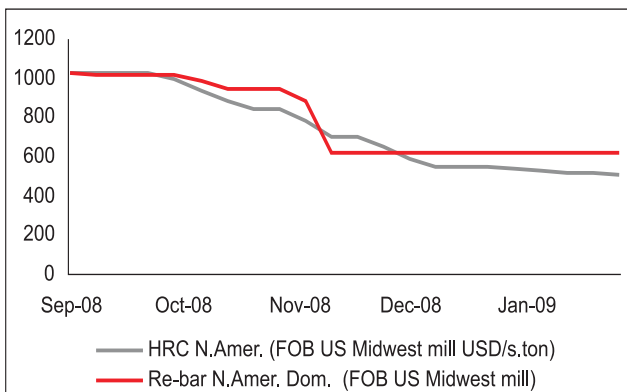
The industry has experienced a sharp drop in case of spot raw material prices of iron ore and coke. Iron ore prices (China import India iron ore 63% Fe - CFR China) have corrected 61% till date to \$80, from the highs of \$210/ tonne. Coke prices (China export coke 10.5-12.5% ash - FOB) too have corrected 57.3% to \$410/ tonne, from the highs of \$715/ tonne.

Depending on the raw material integration level and terms with raw material suppliers, steel companies have experienced a drastic fall in EBITDA margin. Steel manufacturers are eagerly awaiting the expiry of their respective ongoing contracts, so as to be able to renegotiate raw material contracts at much lower rates.

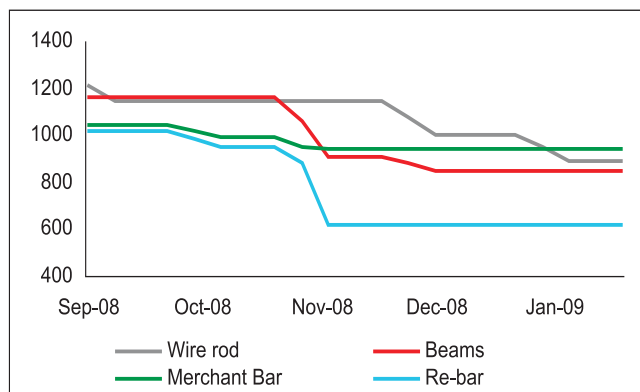
The sharp reduction in raw material prices (iron ore up to at least 20% and coking coal up to 50%) in the near future as the contracts go for renewal (April-June 2009) may result in steel consumers pressurizing producers to pass on the benefits of lower raw material costs. The weak global economic scenario may also lead to a downtrend in the steel industry cycle.

This in our view will keep steel prices depressed over the next 2-3 quarters.

**HRC vs Re-bar price**



**Long products prices - not corrected as much as flat products**



Performance Snapshot - leading Indian Steel Companies

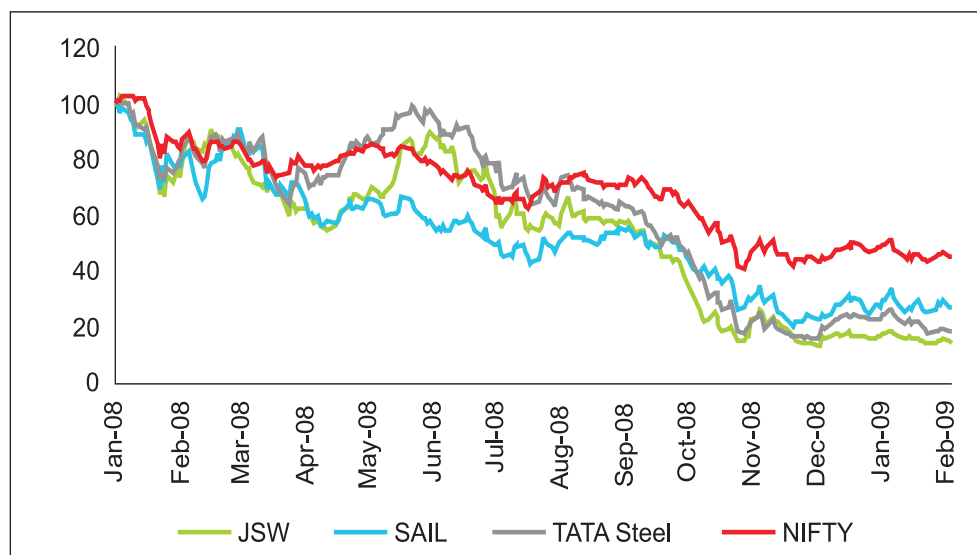
Key Revenue Statistics	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Tata Steel - Sales (mn tonnes)	1.24	1.22	1.07	-13.8%	-12.2%
Tata Steel - Blend. Realis. (Rs '000/tonne)	32.86	44.26	38.34	16.7%	-13.4%
SAIL - Sales (mn tonnes)	2.97	2.60	2.40	-19.2%	-7.7%
SAIL - Blend. Realis. (Rs '000/tonne)	31.66	46.62	36.88	16.5%	-20.9%
JSW - Sales (mn tonnes)	0.87	0.84	0.71	-18.0%	-15.1%
JSW - Blend. Realis. (Rs '000/tonne)*	29.80	46.82	34.96	17.3%	-25.3%

\* standalone

Key cost parameters - Q3FY09 (Rs)	Tata Steel	SAIL	JSW
Raw-material/tonne	13,048	24,502	25,608
Power cost/tonne	2,134	2,970	2,527
Employee cost/tonne	4,607	7,275	1,487

Key costs - as a % of sales - Q3FY09	Tata Steel	SAIL	JSW
Raw material costs	33.6%	66.4%	61.3%
Employee expenses	11.8%	19.7%	3.6%
Power, oil & fuel	5.5%	8.1%	6.0%
Other expenses	24.2%	16.3%	9.5%

Relative stock price performance



**Tata Steel Ltd. (Standalone) Q3-FY09 Results Analysis**

February 4, 2009

**Price: Rs170**

**BSE Sensex: 9,149**

**Market cap: Rs124bn**

**Dividend yield: 8.6%**

Tata Steel Ltd. (TSL) is the world's 6<sup>th</sup> largest steel company. It has crude steel manufacturing capacity of 6.8mn tpa (excl. Corus), comprising of 3.3mn tpa of flat products and 3.5mn tpa of long products.

TSL will announce consolidated results, including results of Corus operations in February.

**Key Statistics**

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Steel - Sales (tonnes)	1,243,500	1,220,050	1,071,805	-13.8%	-12.2%
Net Sales - Steel (RsCr)	4085.54	5399.47	4109.63	0.6%	-23.9%
Blended Realisations (Rs/tonne)	32,855	44,256	38,343	16.7%	-13.4%
EBIT/tonne (Rs)	13,693	19,879	11,986	-12.5%	-39.7%
Raw-material/tonne (Rs)	7,242	10,393	13,048	80.2%	25.6%
Power cost/tonne (Rs)	1,922	2,091	2,134	11.0%	2.1%
Employee cost/tonne (Rs)	3,449	4,502	4,607	33.6%	2.3%

**Highlights**

- **Steel volumes:** The finished steel production and sales (in tonnes) were at 1.23mn and 1.07mn, down 7.1% and 12.2% (q-o-q) and 0.9% and 13.8% (y-o-y) respectively. The volume decline is attributable to the slump in domestic auto sector and global demand and also due to plant shut down for 17 days. It expects steel volumes to be at 1.5mn tonnes for 4QFY09.
- **Realizations:** Blended realization/tonne at Rs38,343 per tonne (which includes sale of steel tubes), was higher by 16.7% y-o-y, but declined by 13.4% q-o-q.

The management indicated that the average realizations for steel was about Rs33,000 / tonne, with the 2<sup>nd</sup> half of December registering even lower realizations, as low as Rs31,000/tonne. We expect realizations to further drop to Rs25-26,000 / tonne, especially for flat products in Q4FY09 i.e., a correction of over 20% from average realizations in Q3FY08.

- **The result: negative topline growth for Steel business.** Steel net sales dropped by 23.9% q-o-q and marginally increased by 0.6% y-o-y to Rs4110Cr. Steel EBIT margin declined from 41.7%(3QFY08) and 44.9%(2QFY09) to 31.3%. PAT decline by 56.4% y-o-y and 73.9% q-o-q to Rs 466.24Cr, also impacted by higher interest costs (up 36.6% q-o-q) to Rs348.2Cr and Forex loss of Rs126.80Cr.
- **Weakening EBIT/tonne:** EBIT/tonne slumped to Rs11,985, down 39.7% q-o-q and 12.5% y-o-y, due to (a) lower sales volume, (b) lower realizations and (c) higher raw material costs. Raw material cost / tonne increased to Rs13,048, up by 80.2% y-o-y and 25.6% q-o-q.

The Company stated that coking coal prices will only get renegotiated from June 2009. Power cost increased 10% y-o-y on lower production volumes (down 0.9%); however it decreased 5.2% q-o-q albeit on lower production volumes (down 7.1%). Nevertheless, power cost per tonne increased by 7.9% q-o-q.

- **Similar weakness in other businesses:** Performance of ferro alloys and other business too was weak. Lower off-take by stainless steel manufacturers, operating at less than 50% of its respective capacity has marred the ferro alloy market.

Average realizations of TSL's ferro alloys division fell to Rs62,000 / tonne, way off the highs of Rs1,00,000 / tonne during Q2. Revenues dipped 60.5% q-o-q and 34.2% y-o-y to Rs377Cr. EBIT margin dropped to 38.1% from 40.8% y-o-y and 58.4% q-o-q.

**Highlights of Quarterly Results**

**Financial highlights**

(RsCr)

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Net Sales	4,973.92	6,850.67	4,802.14	-3.5%	-29.9%
Total Expenditure	2,942.34	3,667.70	3,324.19	13.0%	-9.4%
EBITDA	2,031.58	3,182.97	1,477.95	-27.3%	-53.6%
EBITDA margin (%)	41.2%	47.2%	31.2%	-10.01pps	-15.99pps
Other income	47.05	238.37	8.49	-82.0%	-96.4%
Interest	342.69	254.82	348.20	1.6%	36.6%
PBT	1,574.65	2,572.28	760.13	-51.7%	-70.4%
Tax	506.07	784.47	293.89	-41.9%	-62.5%
Tax rate (%)	32.1%	30.5%	38.7%	652bps	817 bps
PAT	1,068.58	1,787.81	466.24	-56.4%	-73.9%
Extra-ordinary items	47.92	(345.42)	(126.80)	-364.6%	-63.3%
PAT after EOI	1,020.66	2,133.23	593.04	-41.9%	-72.2%

Net profits dented due to higher interest costs (up 36.6% q-o-q) and lower other income (down 96.4% q-o-q)

**Revenue by business segment**

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
<b>Revenue</b>					
Revenue -Steel	4109.63	4085.54	5399.47	31.4%	32.2%
Revenue - Ferro alloys	377.04	573.01	953.96	153.0%	66.5%
<b>Total</b>	4486.67	4658.55	6353.43	41.6%	36.4%
<b>%contribution</b>					
Steel	91.6%	87.7%	85.0%	-7.2%	-3.1%
Ferro alloys	8.4%	12.3%	15.0%	78.7%	22.1%
<b>EBIT</b>					
Steel	1702.72	2425.39	1284.64	-24.6%	-47.0%
Ferro alloys	233.65	556.8	143.47	-38.6%	-74.2%
<b>EBIT Margin (%)</b>					
Steel	41.4%	59.4%	23.8%	-17.64pps	-35.57pps
Ferro alloys	62.0%	97.2%	15.0%	-46.93pps	-82.13pps

Ferro alloys biz. severely impacted as stainless steel manufacturers operated at less than 50% of its capacity

**Costs break-up**

(RsCr)

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Raw Material Consumed	902.32	1,381.76	1,611.17	78.6%	16.6%
as a % of sales	18.1%	20.2%	33.6%	15.41pps	13.38pps
Stock Adjustment	(61.43)	(384.39)	(636.02)	935.4%	65.5%
Purchase of Finished Goods	93.32	120.51	93.12	-0.2%	-22.7%
Employee Expenses	429.67	598.53	568.86	32.4%	-5.0%
as a % of sales	8.6%	8.7%	11.8%	321bps	311bp
Power, Oil & Fuel	239.51	278.07	263.54	10.0%	-5.2%
as a % of sales	4.8%	4.1%	5.5%	0.67bps	1.43bps
Freight and handling	298.35	331.46	262.23	-12.1%	-20.9%
as a % of sales	6.0%	4.8%	5.5%	-0.54bps	0.62bps
Other Expenses	1,040.60	1,341.76	1,161.29	11.6%	-13.5%
as a % of sales	20.9%	19.6%	24.2%	326bps	460bps

**Valuation**

At the current price of Rs184, the stock is trading at 2.4x TTM EPS of Rs76.53. On price/book basis, the stock is trading at 0.62x.

**Steel Authority of India Ltd. Q3-FY09 Results Analysis**

February 4, 2009

**Price: Rs76**

**BSE Sensex: 9,149**

**Market cap: Rs314bn**

**Dividend yield: 4.4%**

Steel Authority of India Ltd. (SAIL) has crude-steel manufacturing capacity of 14mn tpa. It sold 12.3mn tonnes in FY08 from its five fully integrated steel plants viz. at Bokaro, Bhilai, Durgapur, Rourkela and IISCO.

In Q3FY09, Bokaro and Bhilai plants together sold approximately 1.6mn tonnes, which constituted 2/3<sup>rd</sup> of the total sales of 2.4mn tonnes.

SAIL's product mix was 55% flat products, 27% long and 18% semis during 9 months to December 31, 2008. Prices of long products have not corrected as much as flat products. Demand erosion has been steeper in case of flat products mainly due to the weak auto sector.

**Key Statistics**

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Steel - Sales (tonnes)	2,970,000	2,600,000	2,400,000	-5.9%	-27.0%
Net Sales - Steel (RsCr)	9,403	12,121	8,852	16.5%	-20.9%
Blended Realisations (Rs/tonne)	31,661	46,619	36,884	-53.2%	-59.4%
EBITDA/tonne (Rs)	10,046	11,583	4,703	123.9%	40.7%
Raw-material/tonne (Rs)	10,946	17,411	24,502	24.0%	-10.0%
Power cost/tonne (Rs)	2,395	3,299	2,970	26.4%	-39.1%
Employee cost/tonne (Rs)	5,757	11,936	7,275	26.4%	-39.1%

**Highlights**

- **Steel volumes:** Sales of finished steel was 2.4mn tonnes, down 19.2% y-o-y and 7.7% q-o-q. The decline is attributable to overall weakness in domestic and global demand. For 9 months to December, its product mix comprised of flat products (55%), long products (27%) and semis (18%) in its five integrated steel plants.
- **Dipping realizations:** Blended realization/tonne which includes value-added products declined by 20.9% q-o-q to Rs36,884 and increased by 16.5% y-o-y. The management intends to reduce inventory from 1.6mn tonnes to 0.5mn tonnes. In our view, de-stocking would further put pressure on the realizations and may also result in further EBITDA margin contraction.
- **Disappointing results, lowest EBITDA margin:** Net sales declined by 27% q-o-q and by 5.9% y-o-y to Rs8,852Cr. EBITDA margin dropped from 31.3% y-o-y and 24.6% q-o-q, to 12.7%. This is the lowest EBITDA margin amongst the four major Indian steel manufacturers for this quarter. Raw material costs increased 80.9% y-o-y and 29.9% q-o-q. The decline in staff costs by 43.7% q-o-q is primarily attributable to lower provisioning for VI<sup>th</sup> Pay Commission (+2.1% y-o-y). The rise in other income by 76.6% y-o-y and 31.4% q-o-q could not offset the rise in interest costs (up by 126%) and 56.6% y-o-y making net profits dip to Rs843.34Cr down 58% q-o-q.
- **Lowest EBITDA/tonne amongst the 3:** EBITDA/tonne slumped to Rs4,702 down 53.2% q-o-q and 59.4% y-o-y due to (a) higher raw material costs, (b) lower realizations and (c) lower sales volumes. Raw material cost per tonne increased 78.3% y-o-y and 24.4% q-o-q to Rs16,200.

We attribute the increase to substantial imports of raw material (70% of its coking coal requirements are met through imports and only 20% of it is procured through spot market, the rest on long term) on long term contracts at \$300/ tonne. The company is yet to reset raw material prices with its suppliers. It expects price reset by June 2009.

- **Ambitious plans:** In FY08, it sold about 13mn tonnes of steel and expects sales volumes to increase to 23mn tonnes by FY11. The capex for 9MFY09 stood at Rs3231Cr and the expected capex for FY09 is about Rs5000Cr. With Debt/equity of just 0.25, the ambitious expansion plans may not face any funding issues.

The sluggishness in the market has resulted in fall in capex costs by at least 12-15%; however any further increase in the demand-supply gap may prove to be unfavorable.

SAIL remains committed to a large capex plan of Rs54000Cr. We believe while it is positive for a company to be able to increase capacity in a down cycle in order to benefit in the upturn, we expect delays in case the expected recovery does not materialize.

### Highlights of Quarterly Results

#### Financial highlights

(RsCr)

Total expenditure decreased 15.6% q-o-q despite an increased in raw material costs by 29.9% q-o-q

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Net Sales	9,403.35	12,120.90	8,852.26	-5.9%	-27.0%
Total Expenditure	6,549.70	9,227.07	7,791.96	19.0%	-15.6%
EBITDA	2,983.59	3,011.52	1,128.67	-62.2%	-62.5%
EBITDA margin (%)	31.3%	24.6%	12.7%	-18.64pps	-11.95pps
Other income	314.35	422.40	555.04	76.6%	31.4%
Interest	59.75	47.54	107.77	80.4%	126.7%
PBT	2,922.16	3,066.99	1,256.55	-57.0%	-59.0%
Tax	969.82	1,147.75	366.54	-62.2%	-68.1%
Tax rate (%)	33.2%	37.4%	29.2%	-402bps	-825bps
PAT	1,934.66	2,009.60	843.34	-56.4%	-58.0%
PAT after EOI	1,934.66	2,009.60	843.34	-56.4%	-58.0%

#### Costs break-up

(RsCr)

70% of coking coal req. met through imports & only 20% is procured through spot market

Staff costs decline attributable to lower provisioning for VI<sup>th</sup> pay Comsn.

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Raw Material Consumed	3,250.84	4,526.93	5,880.54	80.9%	29.9%
as a % of sales	34.6%	37.3%	66.4%	31.86pps	29.08pps
Stock Adjustment	(552.59)	(1,142.18)	(1,992.38)	260.6%	74.4%
Purchase of Finished Goods	1.30	4.31	1.78	36.9%	-58.7%
Employee Expenses	1,709.70	3,103.31	1,745.92	2.1%	-43.7%
as a % of sales	18.2%	25.6%	19.7%	154bps	-588bps
Power, Oil & Fuel	711.24	857.82	712.84	0.2%	-16.9%
as a % of sales	7.6%	7.1%	8.1%	0.49bps	0.98bps
Other Expenses	1,429.21	1,876.88	1,443.26	1.0%	-23.1%
as a % of sales	15.2%	15.5%	16.3%	110bps	0.82bps

### Valuation

At the current price of Rs82, the stock is trading at 4.9x TTM EPS of Rs16.61. On price/book value basis, the stock trades at 1.5x.

**JSW Steel Ltd. Q3-FY09 Results Analysis**

February 4, 2009

**Price: Rs189**

**BSE Sensex: 9,149**

**Market cap: Rs35bn**

**Dividend yield: 6.6%**

JSW Steel Ltd. (JSW) has crude-steel manufacturing capacity of 3.8mntpa.

**Key Statistics**

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Steel - Production (tonnes)	956,000	1,001,000	782,000	-18.2%	-21.9%
Steel - Sales (tonnes)	867,000	837,000	711,000	-18.0%	-15.1%
Net Sales - Steel (RsCr)	2803.55	4269.21	2785.53	-0.6%	-34.8%
Standalone Blen. Realis. (Rs/tonne)	29,799	46,824	34,958	17.3%	-25.3%
EBITDA/tonne (Rs)*	9,635	14,331	7,097	-26.3%	-50.5%
Raw-material/tonne (Rs)	17,121	31,254	25,608	49.6%	-18.1%
Power cost/tonne (Rs)	1,501	2,118	2,527	68.3%	19.3%
Employee cost/tonne (Rs)	1,114	1,515	1,487	33.5%	-1.9%

\* Consolidated

**Highlights**

- **Strategic volume mix - a savior:** JSW rejigged the product mix to take advantage of the market conditions. During Q3FY09, its product mix was: flat rolled products 53%, long rolled products 7%, CR/CA 23% and GI/GL products 17%. With flat product prices experiencing a steeper fall than long products, it focused on value-added products. Tonnage sales of long products and other value added products (like galvanized coils, etc) increased 52% q-o-q and 12.1% q-o-q respectively.
- **Successful Cost reduction but still insufficient:** Though blended cost per tonne fell by 14% q-o-q to Rs29,446, it was not enough to protect margins and is still way above the Q3FY08 levels of Rs20,832. While steel prices have fallen below 3QFY08 levels, costs fall with a large lag time, given the long term raw material contracts entered by producers.

EBITDA margin fell from 25.6% q-o-q and 26.9% y-o-y to 15.2%. JSW managed to reduce blended cost through increasing usage of its own coke (95% own coke vis-à-vis 66% q-o-q), rather than sourcing from third parties. Realization per tonne (incl. value-added products) declined by 25.3% q-o-q to Rs34,958 and increased by 17.3% y-o-y. The management expects realizations to drop to Rs26-27,000 / tonne in Q4FY09.

- **Lower volumes in tough conditions:** Crude steel production and sales (in tonnes) were at 0.782mn and 0.711mn respectively, down 21.9% and 15.1% (q-o-q) and 18.2% and 18% (y-o-y) respectively. The decline is due to overall weakness in domestic and global demand.
- **EBITDA/tonne – Consolidated EBITDA/tonne** dipped to Rs7,096, down 50.5% q-o-q and 26.3% y-o-y due to (a) higher raw material costs, (b) lower blended realizations and (c) lower sales volumes. Raw material cost per tonne increased 72.6% y-o-y and 12.3% q-o-q to Rs27,989. The company is yet to reset raw material prices with its suppliers. It expects it to reset by next quarter.
- **Mark to market forex losses accentuates losses:** Total operating income increased 7.0% y-o-y and declined 29.1% q-o-q to Rs8,852Cr. Raw material costs increased 22.3% y-o-y and decreased 29.9% q-o-q. Mark to market forex losses stood at Rs174.7Cr due to depreciating rupee. It has about \$1bn of foreign currency borrowings.

**Highlights of Quarterly Results**

**Financial highlights**

(RsCr)

Shift in focus on long and value added products helped in tough market conditions.

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Net Sales	3,082.37	4,641.42	3,268.89	6.1%	-29.6%
Total Expenditure	2,267.27	3,484.61	2,814.52	24.1%	-19.2%
EBITDA	835.39	1,199.49	504.59	-39.6%	-57.9%
EBITDA margin (%)	26.9%	25.6%	15.2%	-11.72pps	-10.41pps
Other income	2.28	2.71	0.86	-62.3%	-68.3%
Interest	162.87	278.80	330.19	102.7%	18.4%
PBT	463.02	422.17	(265.30)	-157.3%	-162.8%
Tax	157.52	164.67	(71.69)	-145.5%	-143.5%
Tax rate (%)	34.0%	39.0%	27.0%	-7.00pps	-11.98pps
PAT	305.50	257.50	(193.61)	-163.4%	-175.2%
PAT after Minority Int.	297.61	252.44	(187.83)	-163.1%	-174.4%

Consecutive forex translation loss increased net losses

**Costs break-up**

(RsCr)

Own coke consumption (up to 95% from 66% q-o-q) helps reduce raw material costs.

	3QFY08	2QFY09	3QFY09	% change Y-o-Y	% change Q-o-Q
Raw Material Consumed	1,636.77	3,128.49	2,002.55	22.3%	-36.0%
as a % of sales	53.1%	67.4%	61.3%	816bps	-614bps
Stock Adjustment	(86.09)	(634.64)	186.24	-316.3%	-129.3%
Employee Expenses	106.49	151.66	116.25	9.2%	-23.3%
as a % of sales	3.5%	3.3%	3.6%	0.10bps	0.29bps
Power, Oil & Fuel	143.51	211.99	197.58	37.7%	-6.8%
as a % of sales	4.7%	4.6%	6.0%	139bps	148bps
Other Expenses	466.59	627.11	311.90	-33.2%	-50.3%
as a % of sales	15.1%	13.5%	9.5%	-560bps	-397bps

Employess expenses, the lowest at 3.6% of sales.

**Valuation**

At the current price of Rs187, the stock trades at 3.4x TTM EPS of Rs60.74. On price/book value basis, the stock trades at 0.54x.

**Keynote Capitals Ltd.**

**Member**

Stock Exchange, Mumbai (INB 230930539)  
National Stock Exchange of India Ltd. (INB 010930556)  
Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

**Registered Office**

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Ballard Estate, Mumbai 400 001.  
Tel Nos. 022-2269 4322 / 24 / 25

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