

BUY

TP: Rs 440 | ▲ 114%

**HINDUSTAN
PETROLEUM CORP**

| Oil & Gas

| 05 November 2020

GRMs recover, marketing margins remain elevated

HPCL's Q2FY21 earnings remained robust at Rs 24.7bn (+2.4x YoY). Q2 highlights: (a) GRMs outperformed at US\$ 5.1/bbl (incl. US\$ 2.4/bbl inventory gains), (b) indicative marketing EBITDA at Rs 3,253/mt (+21% YoY) was below estimates, while sales volume recovered slightly to 8.43mmt (-10% YoY). H2FY21 looks better for marketing volumes even as low oil prices provide flexibility to sustain high marketing margins, making earnings countercyclical. We maintain our Sep'21 TP of Rs 440.

Rohit Ahuja | Harleen Manglani

research@bobcaps.in

Marketing margins make earnings countercyclical: HPCL's marketing margins normalised to Rs 3,253/mt (still up 21% YoY). Management sounded optimistic on volume growth recovery in H2FY21 as India emerges from the pandemic induced lockdown. Oct'20 has seen YoY growth in petrol and diesel consumption. Unlike private peers, the large dependence of HPCL – and OMCs in general – on domestic markets (with a dominant >80% market share) gives them a massive advantage. With oil prices sustaining at lower levels, OMC marketing margins are expected to remain elevated, enabling them to make up for low GRMs.

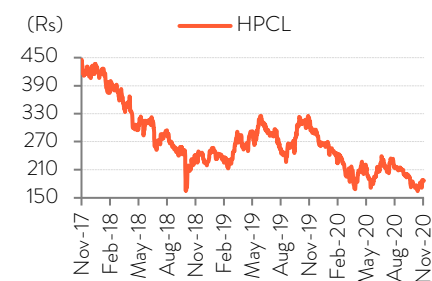
GRMs outperform: HPCL outperformed its OMC peers to report one of the best core GRMs (ex-inventory) at US\$ 2.75/bbl. Oct'20 looks better for margins, as the Singapore benchmark has turned positive. HPCL's relatively high exposure to light-distillate product output (petrol, lubricants) aided the margin beat.

Valuations undemanding: Management announced a very optimistic buyback offer for 6.5% equity, at a price upto Rs 250/sh (34% premium to the closing price of 4 November). With valuations at 3.5x FY22E EV/EBITDA and ROE at >30%, a buyback is clearly the most attractive proposition. Management has ruled out any dilution in dividend payouts. We reiterate our view that risk-reward in HPCL remains at one of the historical best levels. BUY.

Ticker/Price	HPCL IN/Rs 205
Market cap	US\$ 4.2bn
Shares o/s	1,524mn
3M ADV	US\$ 21.2mn
52wk high/low	Rs 317/Rs 150
Promoter/FPI/DII	51%/15%/33%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	2,742,552	2,679,238	1,917,613	2,472,832	3,217,817
EBITDA (Rs mn)	102,919	44,947	149,138	152,040	172,015
Adj. net profit (Rs mn)	48,312	45,580	73,969	85,588	103,306
Adj. EPS (Rs)	31.7	29.9	48.5	56.2	67.8
Adj. EPS growth (%)	(33.1)	(5.7)	62.3	15.7	20.7
Adj. ROAE (%)	17.3	14.9	23.1	24.8	27.6
Adj. P/E (x)	6.5	6.9	4.2	3.7	3.0
EV/EBITDA (x)	3.9	9.1	3.3	3.8	3.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net sales	515,111	605,728	(15.0)	374,982	37.4	890,093	1,312,833	(32.2)
Purchases	360,679	407,228	(11.4)	228,980	57.5	589,659	918,957	(35.8)
% of sales	70.0	67.2	-	61.1	-	66.2	70.0	-
Other expenditure	121,015	178,216	(32.1)	104,692	15.6	225,707	359,936	(37.3)
% of sales	23.5	29.4	-	27.9	-	25.4	27.4	-
EBITDA	33,417	20,284	64.7	41,310	(19.1)	74,727	33,939	120.2
EBITDA margin (%)	6.5	3.3	-	11.0	-	8.4	2.6	-
Depreciation and amortisation	8,683	8,121	6.9	8,661	0.2	17,344	16,272	6.6
Interest	2,604	2,856	(8.8)	3,217	(19.1)	5,821	4,919	18.3
Other income	10,790	6,863	57.2	7,852	37.4	18,642	15,811	17.9
PBT	32,920	16,170	103.6	37,284	(11.7)	70,204	28,560	145.8
Exceptional item	-	-	-	-	-	-	-	-
Provision for tax	8,146	5,647	44.3	9,146	(10.9)	17,291	9,928	74.2
PAT (reported)	24,775	10,523	135.4	28,138	(12.0)	52,913	18,633	184.0
Other comprehensive income	(221)	-	-	(44)	-	(265)	7,617	-
Total income	24,553	10,523	133.3	28,094	(12.6)	52,647	26,249	100.6
NPM (%)	4.8	1.7	-	7.5	-	5.9	1.4	-
EPS (reported) (Rs)	16.1	6.9	133.3	18.4	(12.6)	34.5	17.2	100.5
Pipeline throughput (mmt)	4.7	5.1	(6.9)	3.5	32.8	8.2	10.4	(20.7)

Source: Company, BOBCAPS Research

FIG 2 – SEGMENT-WISE PERFORMANCE

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Crude throughput (mmt)	4.06	4.56	(11.0)	3.97	2.3	8.03	8.48	(5.3)
GRM (US\$/bbl)	5.11	2.83	80.4	0.04	12,675.0	2.58	1.87	38.0
Normalised GRMs (US\$/bbl)	2.75	2.55	7.6	(0.87)	(416.2)	0.94	4.17	(77.4)
Refining EBITDA (Rs mn)	5,998	1,140	426.1	(5,219)	(214.9)	778	37,130	-
Refining EBITDA (US\$/bbl)	2.7	0.5	472.1	(2.4)	(214.8)	0.2	8.4	-
Inventory gains/ (loss) (Rs mn)	5,230	660	692.4	2,010	160.2	7,240	(4,500)	-
Inventory gains/ (loss) (US\$/bbl)	2.36	0.28	743.9	0.91	160.0	1.64	(2.30)	-
Exchange fluctuation gain/(loss) (Rs mn)	79	(220)	-	280	71.8	359	660	-
Adjusted Refining EBITDA (Rs mn)	689	700	(1.6)	(7,509)	(109.2)	(6,821)	40,970	(116.6)
Adjusted Refining EBITDA (US\$/bbl)	0.31	0.29	7.0	(3.40)	(109.2)	(1.54)	9.31	(116.6)
Market sales (mmt):	8.43	9.40	(10.3)	7.62	10.6	16.05	19.49	(17.7)
Domestic sales	8.10	8.95	(9.5)	7.24	11.9	15.34	18.77	(18.3)
Exports	0.33	0.45	(26.7)	0.38	(13.2)	0.71	0.72	(1.4)
Marketing EBITDA (Rs mn)	27,419	25,290	8.4	46,529	(41.1)	73,948	45,630	62.1
Marketing EBITDA (Rs/MT)	3,253	2,690	20.9	6,106	(46.7)	4,679	2,353	98.9
Inventory gains/ (loss) (Rs mn)	12,570	(130)	-	4,320	191.0	16,890	(330)	-
Inventory gains/ (loss) (Rs/MT)	1,491	(14)	-	567	163.0	1,029	(17)	-
Exchange fluctuation gain/(loss) (Rs mn)	445	(1,000)	-	210	111.9	655	60	-
Adj. Marketing EBITDA (Rs mn)	14,404	26,420	(45.5)	41,999	(65.7)	56,403	45,900	22.9
Adj. Marketing EBITDA (Rs/MT)	1,709	2,811	(39.2)	5,512	(69.0)	3,610	2,355	53.3
Others EBITDA (Rs mn)	na	720	-	-	-	18,000	-	-
Reported EBITDA (Rs mn)	33,417	20,284	64.7	41,310	-	74,727	33,939	120.2

Source: Company, BOBCAPS Research

Earnings call highlights

- Since Oct'20, marketing volumes have started to improve YoY with diesel resuming its growth trajectory and rising 11%. Positive growth in diesel is a sign of revival in the industrial economy.
- Even during the lockdown period, HPCL ran its refineries at close to 100% capacity utilisation. This decision was made as the company's product sales (40mmt p.a.) exceed its production at refineries (~29mmt incl. JVs).
- HPCL aims to create an end-to-end value chain for its CNG segment. It currently has 575 CNG stations in 20 geographical areas (GAs), besides 11 LNG dispensing stations. Management sees an opportunity in the use of LNG as a transportation fuel in the medium term.
- Petrochemicals are expected to form a substantial part of the company's production and marketing in the near term. About 6-6.4mmt of petchem production is set to come up after two plants get commissioned in the near term and other integration activities take place.
- GRMs remain subdued for H1FY21 but are expected to improve in the coming quarters. Management also indicated that shutting down of refineries in Europe may have a positive impact in the near term.
- On the capex front, the Mumbai refinery expansion has completed 80% of financial progress and 90-95% of physical progress. Vizag refinery expansion has completed 70% of the physical progress and 50% of financial progress.
- HPCL currently has ~Rs 40bn outstanding from the government for subsidy payments.
- As the current buyback is less than 10% of the total equity and reserves, HPCL does not require shareholder approval. Since this is an OMO, the promoter (ONGC) will not be participating in the buyback.

Valuation methodology

Management has announced a very optimistic buyback offer for 6.5% equity, at a price upto Rs 250/sh (34% premium to the closing price of 4 November). With valuations at 3.5x FY22E EV/EBITDA and ROE at >30%, a buyback is clearly a most attractive proposition. Management has ruled out any dilution in dividend payouts. We reiterate our view that risk-reward in HPCL remains at one of the historical best levels. Maintain BUY with a Sep'21 SOTP-based target price of Rs 440.

Valuation multiples for our SOTP model remain unchanged as follows:

- refining business valued at 6x Sep'22E EBITDA, and
- marketing business valued at 5x Sep'22E EBITDA.

FIG 3 – SOTP VALUATION SUMMARY

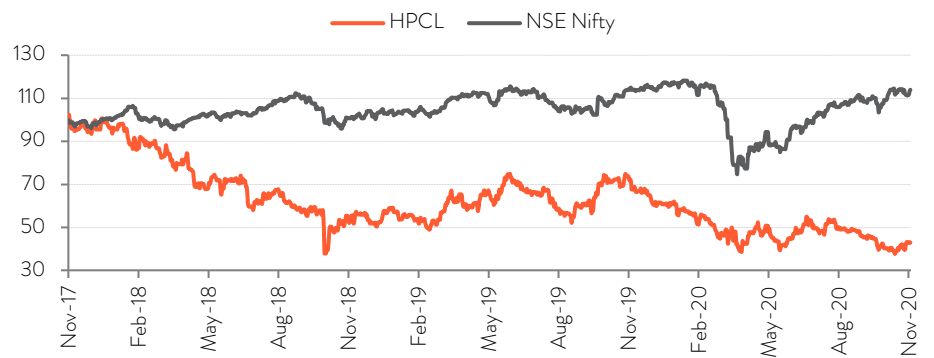
Business	EV (Rs bn)	Value (Rs/sh)	Comments
Refining Business	29	19	6x Sep'22E EBITDA
Marketing & others	786	516	5x Sep'22E EBITDA
Bhatinda refinery	-	-	Nil valuation on losses
Total core business	815	535	-
Less: Net debt	151	99	Adjusted for Bhatinda stake
Equity Value of core businesses	661	434	-
MRPL stake	6	3	20% discount to CMP
OIL stake	3	2	20% discount to CMP
HPCL's Equity Value (Rs)	672	440	7.9x FY22E EPS

Source: Company, BOBCAPS Research

FIG 4 – KEY ASSUMPTIONS

	FY21E	FY22E	FY23E
USDINR (Rs)	76.0	78.0	80
Crude price (US\$/bbl)	35.0	40.0	45.0
Mumbai & Vizag refineries			
GRM (US\$/bbl)	2.0	3.0	3.5
Crude throughput (mmt)	24.4	28.5	28.5
HMEL (Bhatinda)			
GRM (US\$/bbl)	7.0	8.0	10.0
Crude throughput (mmt)	12.0	12.0	12.0
Product sales (mmt)	40.7	43.4	46.4

Source: BOBCAPS Research

FIG 5 – RELATIVE STOCK PERFORMANCE

Source: NSE

Key risks

- **Extended global slowdown:** HPCL's valuations are highly sensitive to GRMs and marketing margins. An extended global economic slowdown due to the current pandemic may alter our valuation outlook and GRM/marketing margins assumptions.
- **Surge in oil prices:** Oil prices (>US\$ 70/bbl levels) could lead to concerns such as government control on marketing margins for retail sales of petrol and diesel.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	2,742,552	2,679,238	1,917,613	2,472,832	3,217,817
EBITDA	102,919	44,947	149,138	152,040	172,015
Depreciation	(30,853)	(33,699)	(29,734)	(33,217)	(36,700)
EBIT	72,066	11,248	119,404	118,823	135,315
Net interest income/(expenses)	(7,856)	(11,389)	(22,481)	(30,796)	(41,523)
Other income/(expenses)	26,885	28,494	20,367	40,831	49,185
Exceptional items	0	(10,029)	0	0	0
EBT	91,095	28,354	117,290	128,859	142,977
Income taxes	(33,486)	12,644	(31,288)	(35,037)	(39,671)
Min. int./Inc. from associates	9,297	(4,582)	12,033	8,233	0
Reported net profit	48,312	35,551	73,969	85,588	103,306
Adjusted net profit	48,312	45,580	73,969	85,588	103,306

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	171,334	114,688	108,517	145,792	194,870
Other current liabilities	47,040	35,078	39,555	51,908	68,124
Provisions	21,406	26,852	26,852	26,852	26,852
Debt funds	260,365	393,858	462,916	522,916	622,916
Other liabilities	269,314	288,780	295,237	302,467	310,653
Equity capital	15,242	15,242	15,242	15,242	15,242
Reserves & surplus	288,765	294,564	316,682	342,834	374,319
Shareholders' fund	304,007	309,806	331,924	358,076	389,561
Total liabilities and equities	1,073,465	1,169,062	1,265,000	1,408,010	1,612,976
Cash and cash eq.	2,185	2,231	19,302	6,100	32,833
Accounts receivables	56,678	39,342	42,039	54,208	70,537
Inventories	204,436	193,260	195,331	262,426	350,767
Other current assets	155,507	128,957	128,957	128,957	128,957
Investments	142,975	143,956	173,956	208,956	243,956
Net fixed assets	416,330	489,452	537,118	581,302	622,002
CWIP	95,187	171,698	168,265	164,833	161,400
Intangible assets	167	167	167	167	167
Total assets	1,073,465	1,169,062	1,265,135	1,406,948	1,610,618

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	97,759	60,086	103,703	118,805	140,005
Changes in working capital	(1,646)	11,367	(6)	(22,406)	(31,189)
Other operating cash flows	(26,885)	(18,465)	(20,367)	(40,831)	(49,185)
Cash flow from operations	69,228	52,988	83,330	55,567	59,632
Capital expenditures	(115,446)	(183,330)	(73,968)	(73,968)	(73,968)
Change in investments	(13,311)	1,629	(3,000)	(3,000)	(3,000)
Other investing cash flows	26,041	25,883	(6,633)	8,831	17,185
Cash flow from investing	(102,715)	(155,818)	(83,601)	(68,136)	(59,783)
Debt raised/repaid	40,845	133,493	69,059	60,000	100,000
Dividends paid	(28,355)	(28,355)	(51,716)	(60,633)	(73,116)
Other financing cash flows	10,131	(2,262)	0	0	0
Cash flow from financing	22,621	102,876	17,342	(633)	26,884
Changes in cash and cash eq.	(10,867)	46	17,071	(13,202)	26,732
Closing cash and cash eq.	2,185	2,231	19,302	6,100	32,833

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	31.7	23.3	48.5	56.2	67.8
Adjusted EPS	31.7	29.9	48.5	56.2	67.8
Dividend per share	29.0	34.0	41.0	47.0	49.0
Book value per share	199.5	203.3	217.8	234.9	255.6

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.1	0.2	0.3	0.2	0.2
EV/EBITDA	3.9	9.1	3.3	3.8	3.5
Adjusted P/E	6.5	6.9	4.2	3.7	3.0
P/BV	1.0	1.0	0.9	0.9	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	53.0	248.7	63.1	66.4	72.3
Interest burden (PBT/EBIT)	126.4	162.9	98.2	108.4	105.7
EBIT margin (EBIT/Revenue)	2.6	0.4	6.2	4.8	4.2
Asset turnover (Revenue/Avg TA)	278.4	238.9	157.6	185.1	213.3
Leverage (Avg TA/Avg Equity)	3.5	3.7	3.8	3.9	4.0
Adjusted ROAE	17.3	14.9	23.1	24.8	27.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	25.4	(2.3)	(28.4)	29.0	30.1
EBITDA	4.5	(56.3)	231.8	1.9	13.1
Adjusted EPS	(33.1)	(5.7)	62.3	15.7	20.7
Profitability & Return ratios (%)					
EBITDA margin	3.8	1.7	7.8	6.1	5.3
EBIT margin	2.6	0.4	6.2	4.8	4.2
Adjusted profit margin	1.8	1.7	3.9	3.5	3.2
Adjusted ROAE	17.3	14.9	23.1	24.8	27.6
ROCE	8.8	1.8	11.7	10.3	10.3
Working capital days (days)					
Receivables	7	7	8	7	7
Inventory	105	122	150	129	131
Payables	23	20	23	20	20
Ratios (x)					
Gross asset turnover	3.8	3.3	2.1	2.5	3.1
Current ratio	1.1	1.1	0.9	0.9	1.0
Net interest coverage ratio	9.2	1.0	5.3	3.9	3.3
Adjusted debt/equity	0.8	1.3	1.3	1.4	1.5

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

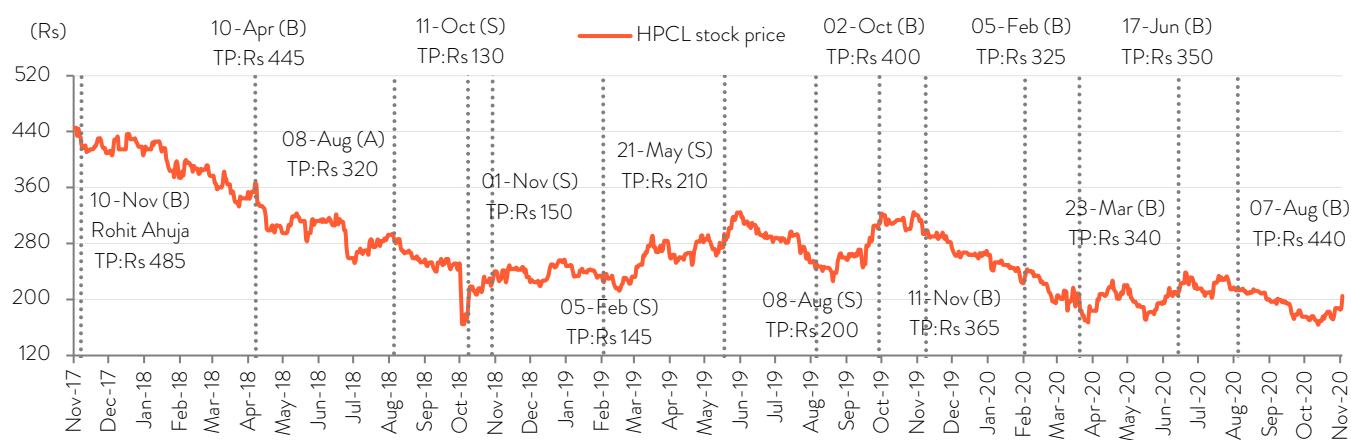
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): HINDUSTAN PETROLEUM CORP (HPCL IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 31 October 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 42 have BUY ratings, 14 have ADD ratings, 10 are rated REDUCE and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated 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. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.