

# Techno Electric | BUY

## Execution remains slow, overall pace to inch up in FY19

Techno Electric (TEEC)'s 3QFY18 results missed our expectations. Net sales declined 15% YoY, 21% below JMFe, as spill over of GST transition related issues continued to persist in EP segment (sales down 15% YoY), while unexpected rains in TN neutralised the impact of higher tariffs in wind segment (sales down 15% YoY). EBITDA was flat YoY at INR 736mn, but margins jumped by 330 bps to 24.4% (JMFe: 18.2%) as re-adjustment of certain items due to GST drove EPC segment EBIT margins to 18% (+290bps), which is likely to normalise from 4QFY18. Management expects FY18 revenue growth to be flat, but net profit should grow by 15% YoY on account of savings in interest outgo (down 38% YoY in 9M) and higher tax-free income in 4Q. Management guides for aggressive order intake in FY19 at INR25bn (JMFe: INR20bn) as it expects increased inflows from East Africa (INR7bn) and domestic FGD space (INR6-7bn). We maintain BUY rating with SOTP based TP of INR440.

- Execution remains sluggish:** Net sales were down 15% YoY, 21% below JMFe as EPC segment sales declined 15% YoY. EPC segment sales were down 15% YoY as execution as transition issues pertaining to GST continues to persist. Due to unexpected rains in Tamil Nadu, wind energy revenues were down 15% YoY whereas treasury income was down 67% YoY. During 9M18, revenues were down 3% YoY to INR 9.7bn. Management expects revenue growth to be flat for FY18, but expects profitability growth at 15% YoY due to savings in interest outgo and higher tax free income in 4Q. Order Inflows for 9M18 rose 50% over the same period last year to INR 9bn and is expected to close FY18 at INR 13bn (+50% YoY), given TEEC is L1 in a large order worth INR 3bn. Order book stood at INR 24bn, 2x TTM sales, providing ample revenue visibility.
- Operating margins better on account of re-adjustment due to GST:** EPC segment margins jumped 290bps to 18% due to re-adjustment of certain cost items on account of GST. Higher PLFs and improvement in tariffs helped margins in the wind segment moved higher to 52% (+930bps). EBITDA growth was flat YoY, with margins jumping 330bps to 24.4% (JMFe: 18.2%). Reduction in debt from INR 3bn to INR 1.1bn as on Dec-17 led to 51% decline in interest outgo. Net profit was up 7% YoY, 15% below JMFe, due to benefits of lower interest outgo (-51% YoY) and lower taxation (28% vs 31%) on account of lower current tax and higher MAT credit entitlement.
- Strong order intake outlook for FY19:** Management guides for robust order intake in FY19 at INR 25bn (JMFe: INR 20bn), consisting of export orders from East Africa (INR7bn), domestic FGD (INR6-7bn), power utilities (INR10bn) and industrial space (INR2.5bn). Exports seems to be a great thrust area for TEEC, where recently it bagged an EPC order of 500 KV substation in Afghanistan, valued at INR 2bn. Foray into setting up of EV charging stations is a longer term opportunity that TEEC plans to explore.
- Maintain BUY with TP of INR 440:** We maintain BUY with an SOTP-based TP of INR 440, as we forecast 12%/15% CAGR in EPC segment sales/net profit over FY17-20.



Sandeep Tulsyan

sandeep.tulsyan@jmfll.com | Tel: (91 22) 66303085

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	440
Upside/(Downside)	20.5%
Previous Price Target	435
Change	1.1%

### Key Data – TEEC IN

Current Market Price	INR365
Market cap (bn)	INR41.1/US\$0.6
Free Float	46%
Shares in issue (mn)	114.2
Diluted share (mn)	112.7
3-mon avg daily val (mn)	INR64.5/US\$1.0
52-week range	439/312
Sensex/Nifty	34,300/10,540
INR/US\$	64.3

### Price Performance

%	1M	6M	12M
Absolute	-11.0	5.4	-1.4
Relative*	-10.2	-4.1	-18.5

\* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	10,972	13,567	13,158	15,266	18,511
Sales Growth (%)	38.2	23.7	-3.0	16.0	21.3
EBITDA	2,206	3,125	3,103	3,181	3,636
EBITDA Margin (%)	20.1	23.0	23.6	20.8	19.6
Adjusted Net Profit	997	1,741	2,230	2,365	2,791
Diluted EPS (INR)	8.7	15.2	19.8	21.0	24.8
Diluted EPS Growth (%)	-5.1	74.5	29.8	6.0	18.0
ROIC (%)	8.7	18.0	25.7	26.1	28.6
ROE (%)	11.2	17.1	18.6	17.0	17.4
P/E (x)	41.8	23.9	18.4	17.4	14.7
P/B (x)	4.5	3.8	3.2	2.8	2.4
EV/EBITDA (x)	20.7	14.0	13.4	12.6	10.6
Dividend Yield (%)	0.7	0.7	0.8	0.8	0.9

Source: Company data, JM Financial. Note: Valuations as of 12/Feb/2018

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. SOTP Valuation**

Business	Valuation basis	PAT/BV/NPV (INR mn)	No of shares (mn)	Value/sh (INR)
EPC segment	20x Mar'20 PAT	1,825	112.7	325
Wind business	130MW capacity at INR 45mn/MW	5,850	112.7	52
Jhajjar BOOT	NPV	1,679	112.7	4
Patran BOOM	NPV	1,106	112.7	4
Cash+invst	1x Mar'19E cash	6,212	112.7	55
<b>Target Price</b>				<b>440</b>

Source: Company, JM Financial

**Exhibit 2. Quarterly Performance – Consolidated**

Y/E March	(INR mn)							
	3QFY17	3QFY18	% YoY	3QFY18E	% YoY E	9M17	9M18	% YoY
<b>Net Sales</b>	<b>3,563</b>	<b>3,015</b>	<b>-15.4</b>	<b>3,828</b>	<b>7.4</b>	<b>9,948</b>	<b>9,680</b>	<b>-2.7</b>
Expenditure	2,812	2,279	-18.9	3,130	11.3	7,370	7,160	-2.8
EBITDA	751	736	-2.0	697	-7.2	2,578	2,520	-2.3
<b>EBITDA (%)</b>	<b>21.1</b>	<b>24.4</b>	<b>330bps</b>	<b>18.2</b>	<b>-290bps</b>	<b>25.9</b>	<b>26.0</b>	<b>10bps</b>
Other income	52	17	-66.6	111	114.4	191	240	26.0
Depreciation	133	106	-20.5	108	-18.5	398	318	-20.3
EBIT	670	647	-3.4	700	4.5	2,370	2,442	3.0
Interest	80	39	-51.2	64	-20.0	298	185	-38.0
PBT before Eol	590	608	3.1	636	7.8	2,073	2,258	8.9
Extraordinary item	0	0		0		0	0	
PBT after Eol	590	608	3.1	636	7.8	2,073	2,258	8.9
Tax	185	170	-8.0	127	-31.3	470	522	11.2
Tax rate (%)	31.4	28.0		20.0		22.7	23.1	
Tax on Eol (assumed)	0	0		0		0	0	
PAT before MI/SA	405	438	8.2	509	25.7	1,603	1,736	8.3
Minority/Share of associates	0	-4				-7	-10	
<b>Reported PAT</b>	<b>405</b>	<b>434</b>	<b>7.3</b>	<b>509</b>	<b>25.7</b>	<b>1,596</b>	<b>1,725</b>	<b>8.1</b>
<b>Reported EPS (INR)</b>	<b>3.6</b>	<b>3.9</b>	<b>7.3</b>	<b>4.5</b>	<b>25.7</b>	<b>14.2</b>	<b>15.3</b>	<b>8.1</b>
<b>Adjusted PAT</b>	<b>405</b>	<b>434</b>	<b>7.3</b>	<b>509</b>	<b>25.7</b>	<b>1,596</b>	<b>1,725</b>	<b>8.1</b>
<b>Adjusted EPS (INR)</b>	<b>3.6</b>	<b>3.9</b>	<b>7.3</b>	<b>4.5</b>	<b>25.7</b>	<b>14.2</b>	<b>15.3</b>	<b>8.1</b>

Source: Company, JM Financial

**Exhibit 3. Cost break-up – consolidated**

Y/E March	(INR mn)							
	3QFY17	3QFY18	% YoY	3QFY18E	% YoY E	9M17	9M18	% YoY
COGS	2,560	1,982	-22.6	2,794	9.2	6,579	6,258	-4.9
as a % of sales	71.8	65.7	-610bps	73.0	120bps	66.1	64.6	-150bps
Staff Cost	76	94	23.9	107	40.0	249	279	12.2
as a % of sales	2.1	3.1	100bps	2.8	60bps	2.5	2.9	40bps
Other Expenditure	176	203	15.3	230	30.7	542	623	15.0
as a % of sales	4.9	6.7	180bps	6.0	110bps	5.4	6.4	100bps

Source: Company, JM Financial

**Exhibit 4. Segmental performance – consolidated**

Y/E March	(INR mn)					
	3QFY17	3QFY18	% YoY	9M17	9M18	% YoY
<b>Revenue</b>						
EPC (Construction)	3,258	2,756	-15.4	8,538	8,452	-1.0
% of net sales	90.2	90.9		84.2	85.2	
Energy (Power)	304	259	-14.9	1,410	1,228	-12.9
% of net sales	8.4	8.5		13.9	12.4	
Corporate	49	17	-64.6	188	240	28.0
% of net sales	1.4	0.6		1.9	2.4	
<b>EBIT</b>						
EPC (Construction)	491	495	0.9	1,278	1,365	6.8
% EBIT	15.1	18.0	290bps	15.0	16.2	120bps
Energy (Power)	130	135	3.6	903	857	-5.1
% EBIT	42.8	52.1	930bps	64.0	69.8	580bps
Corporate	49	17	-64.8	176	240	36.6
% EBIT	100.0	99.4	-60bps	93.6	100.0	640bps

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	10,972	13,567	13,158	15,266	18,511
Sales Growth	38.2%	23.7%	-3.0%	16.0%	21.3%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>10,972</b>	<b>13,567</b>	<b>13,158</b>	<b>15,266</b>	<b>18,511</b>
Cost of Goods Sold/Op. Exp	7,816	9,325	9,211	10,686	12,957
Personnel Cost	299	346	399	440	485
Other Expenses	652	772	445	958	1,432
<b>EBITDA</b>	<b>2,206</b>	<b>3,125</b>	<b>3,103</b>	<b>3,181</b>	<b>3,636</b>
EBITDA Margin	20.1%	23.0%	23.6%	20.8%	19.6%
EBITDA Growth	4.3%	41.7%	-0.7%	2.5%	14.3%
Depn. & Amort.	494	508	427	427	427
EBIT	1,712	2,617	2,676	2,755	3,209
Other Income	375	258	336	369	406
Finance Cost	443	373	224	168	126
PBT before Excep. & Forex	1,644	2,502	2,788	2,956	3,489
Excep. & Forex Inc./Loss(-)	254	233	0	0	0
PBT	1,898	2,735	2,788	2,956	3,489
Taxes	721	837	558	591	698
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-23	-29	0	0	0
Reported Net Profit	1,201	1,927	2,230	2,365	2,791
<b>Adjusted Net Profit</b>	<b>997</b>	<b>1,741</b>	<b>2,230</b>	<b>2,365</b>	<b>2,791</b>
Net Margin	9.1%	12.8%	17.0%	15.5%	15.1%
Diluted Share Cap. (mn)	114.2	114.2	112.7	112.7	112.7
<b>Diluted EPS (INR)</b>	<b>8.7</b>	<b>15.2</b>	<b>19.8</b>	<b>21.0</b>	<b>24.8</b>
Diluted EPS Growth	-5.1%	74.5%	29.8%	6.0%	18.0%
Total Dividend + Tax	343	343	372	406	440
Dividend Per Share (INR)	2.5	2.5	2.8	3.0	3.3

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	9,279	11,070	12,925	14,884	17,235
Share Capital	114	228	225	225	225
Reserves & Surplus	9,164	10,842	12,700	14,658	17,009
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	5,122	3,028	908	727	581
Def. Tax Liab. / Assets (-)	1,025	1,161	1,161	1,161	1,161
<b>Total - Equity &amp; Liab.</b>	<b>15,426</b>	<b>15,259</b>	<b>14,995</b>	<b>16,772</b>	<b>18,977</b>
Net Fixed Assets	8,236	6,487	6,561	6,634	6,707
Gross Fixed Assets	11,095	9,045	9,545	10,045	10,545
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	2,858	2,558	2,985	3,411	3,838
Capital WIP	0	0	0	0	0
Investments	1,561	4,660	4,660	4,660	4,660
Current Assets	8,753	7,916	8,100	10,497	13,695
Inventories	379	2	360	418	507
Sundry Debtors	4,963	5,596	5,588	6,274	7,607
Cash & Bank Balances	1,116	1,032	890	2,341	3,806
Loans & Advances	380	33	0	0	0
Other Current Assets	1,916	1,253	1,262	1,464	1,775
Current Liab. & Prov.	3,124	3,805	4,326	5,019	6,086
Current Liabilities	2,875	3,407	3,244	3,764	4,564
Provisions & Others	249	398	1,081	1,255	1,521
Net Current Assets	5,629	4,112	3,774	5,478	7,610
<b>Total - Assets</b>	<b>15,426</b>	<b>15,259</b>	<b>14,995</b>	<b>16,772</b>	<b>18,977</b>

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	1,644	2,502	2,788	2,956	3,489
Depn. & Amort.	-423	-300	427	427	427
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,237	1,434	196	-253	-667
Others	277	262	0	0	0
Taxes Paid	-486	-701	-558	-591	-698
<b>Operating Cash Flow</b>	<b>-224</b>	<b>3,197</b>	<b>2,853</b>	<b>2,538</b>	<b>2,551</b>
Capex	2,424	2,050	-500	-500	-500
Free Cash Flow	2,200	5,246	2,353	2,038	2,051
Inc (-) / Dec in Investments	-307	-3,100	0	0	0
Others	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>2,117</b>	<b>-1,050</b>	<b>-500</b>	<b>-500</b>	<b>-500</b>
Inc / Dec (-) in Capital	0	114	-3	0	0
Dividend + Tax thereon	-172	-343	-372	-406	-440
Inc / Dec (-) in Loans	-527	-2,095	-2,119	-182	-145
Others	-325	93	0	0	0
<b>Financing Cash Flow</b>	<b>-1,024</b>	<b>-2,230</b>	<b>-2,495</b>	<b>-588</b>	<b>-585</b>
<b>Inc / Dec (-) in Cash</b>	<b>869</b>	<b>-84</b>	<b>-142</b>	<b>1,451</b>	<b>1,466</b>
Opening Cash Balance	247	1,116	1,032	890	2,341
Closing Cash Balance	1,116	1,032	890	2,341	3,807

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	9.1%	12.8%	17.0%	15.5%	15.1%
Asset Turnover (x)	0.7	0.9	0.9	1.0	1.0
Leverage Factor (x)	1.7	1.5	1.3	1.1	1.1
RoE	11.2%	17.1%	18.6%	17.0%	17.4%

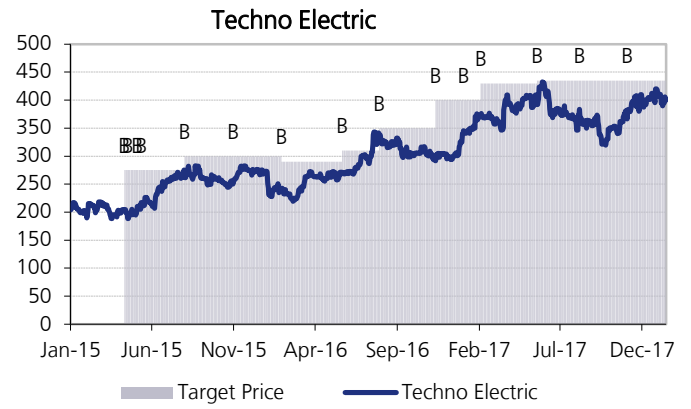
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	81.3	97.0	114.7	132.1	152.9
ROIC	8.7%	18.0%	25.7%	26.1%	28.6%
ROE	11.2%	17.1%	18.6%	17.0%	17.4%
Net Debt/Equity (x)	0.4	0.2	0.0	-0.1	-0.2
P/E (x)	41.8	23.9	18.4	17.4	14.7
P/B (x)	4.5	3.8	3.2	2.8	2.4
EV/EBITDA (x)	20.7	14.0	13.4	12.6	10.6
EV/Sales (x)	4.2	3.2	3.2	2.6	2.1
Debtor days	165	151	155	150	150
Inventory days	13	0	10	10	10
Creditor days	120	119	118	114	112

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
21-Apr-15					275	
27-Apr-15					275	0.0
15-May-15					275	0.0
22-May-15					275	0.0
11-Aug-15	16.2				300	9.1
10-Nov-15	15.9	-1.9			300	0.0
8-Feb-16	14.0	-12.3			290	-3.3
31-May-16	15.9	13.6			310	6.9
8-Aug-16	18.1	14.2			350	12.9
21-Nov-16	18.1	0.0	22.8		400	14.3
12-Jan-17	19.4	7.2	21.8	-4.4	400	0.0
13-Feb-17	20.1	3.6	22.9	5.0	430	7.5
29-May-17	18.9	-6.0	22.2	-3.1	435	1.2
16-Aug-17	20.0	5.8	23.4	5.4	435	0.0
13-Nov-17	21.2	6.0	22.6	-3.4	435	0.0

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

**Research Analyst(s) Certification**

The Research Analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that:

All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

**Important Disclosures**

This research report has been prepared by JM Financial Institutional Securities Limited (JM Financial Institutional Securities) to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its associates solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of JM Financial Institutional Securities. This report has been prepared independent of the companies covered herein.

JM Financial Institutional Securities is registered with the Securities and Exchange Board of India (SEBI) as a Research Analyst, Merchant Banker and a Stock Broker having trading memberships of the BSE Ltd. (BSE), National Stock Exchange of India Ltd. (NSE) and Metropolitan Stock Exchange of India Ltd. (MSEI). No material disciplinary action has been taken by SEBI against JM Financial Institutional Securities in the past two financial years which may impact the investment decision making of the investor.

JM Financial Institutional Securities provides a wide range of investment banking services to a diversified client base of corporates in the domestic and international markets. It also renders stock broking services primarily to institutional investors and provides the research services to its institutional clients/investors. JM Financial Institutional Securities and its associates are part of a multi-service, integrated investment banking, investment management, brokerage and financing group. JM Financial Institutional Securities and/or its associates might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, broking, financing or any other advisory services to the company(ies) covered herein. JM Financial Institutional Securities and/or its associates might have received during the past twelve months or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services.

JM Financial Institutional Securities and/or its associates, their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) covered under this report or (c) act as an advisor or lender/borrower to, or may have any financial interest in, such company(ies) or (d) considering the nature of business/activities that JM Financial Institutional Securities is engaged in, it may have potential conflict of interest at the time of publication of this report on the subject company(ies).

Neither JM Financial Institutional Securities nor its associates or the Research Analyst(s) named in this report or his/her relatives individually own one per cent or more securities of the company(ies) covered under this report, at the relevant date as specified in the SEBI (Research Analysts) Regulations, 2014.

The Research Analyst(s) principally responsible for the preparation of this research report and members of their household are prohibited from buying or selling debt or equity securities, including but not limited to any option, right, warrant, future, long or short position issued by company(ies) covered under this report. The Research Analyst(s) principally responsible for the preparation of this research report or their relatives (as defined under SEBI (Research Analysts) Regulations, 2014); (a) do not have any financial interest in the company(ies) covered under this report or (b) did not receive any compensation from the company(ies) covered under this report, or from any third party, in connection with this report or (c) do not have any other material conflict of interest at the time of publication of this report. Research Analyst(s) are not serving as an officer, director or employee of the company(ies) covered under this report.

While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and JM Financial Institutional Securities does not warrant its accuracy or completeness. JM Financial Institutional Securities may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed or recommendations/opinions given herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and JM Financial Institutional Securities reserves the right to make modifications and alterations to this statement as they may deem fit from time to time.

This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction.

This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject JM Financial Institutional Securities and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

Persons who receive this report from JM Financial Singapore Pte Ltd may contact Mr. Ruchir Jhunjunwala (ruchir.jhunjunwala@jmfl.com) on +65 6422 1888 in respect of any matters arising from, or in connection with, this report.

**Additional disclosure only for U.S. persons:** JM Financial Institutional Securities has entered into an agreement with JM Financial Securities, Inc. ("JM Financial Securities"), a U.S. registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA") in order to conduct certain business in the United States in reliance on the exemption from U.S. broker-dealer registration provided by Rule 15a-6, promulgated under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission ("SEC") (together "Rule 15a-6").

This research report is distributed in the United States by JM Financial Securities in compliance with Rule 15a-6, and as a "third party research report" for purposes of FINRA Rule 2241. In compliance with Rule 15a-6(a)(3) this research report is distributed only to "major U.S. institutional investors" as defined in Rule 15a-6 and is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research report and are not a major U.S. institutional investor, you are instructed not to read, rely on, or reproduce the contents hereof, and to destroy this research or return it to JM Financial Institutional Securities or to JM Financial Securities.

This research report is a product of JM Financial Institutional Securities, which is the employer of the research analyst(s) solely responsible for its content. The research analyst(s) preparing this research report is/are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore, the analyst(s) are not subject to supervision by a U.S. broker-dealer, or otherwise required to satisfy the regulatory licensing requirements of FINRA and may not be subject to the Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

JM Financial Institutional Securities only accepts orders from major U.S. institutional investors. Pursuant to its agreement with JM Financial Institutional Securities, JM Financial Securities effects the transactions for major U.S. institutional investors. Major U.S. institutional investors may place orders with JM Financial Institutional Securities directly, or through JM Financial Securities, in the securities discussed in this research report.

**Additional disclosure only for U.K. persons:** Neither JM Financial Institutional Securities nor any of its affiliates is authorised in the United Kingdom (U.K.) by the Financial Conduct Authority. As a result, this report is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the matters to which this report relates may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This report is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons.

**Additional disclosure only for Canadian persons:** This report is not, and under no circumstances is to be construed as, an advertisement or a public offering of the securities described herein in Canada or any province or territory thereof. Under no circumstances is this report to be construed as an offer to sell securities or as a solicitation of an offer to buy securities in any jurisdiction of Canada. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the registration requirement in the relevant province or territory of Canada in which such offer or sale is made. This report is not, and under no circumstances is it to be construed as, a prospectus or an offering memorandum. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence. If you are located in Canada, this report has been made available to you based on your representation that you are an "accredited investor" as such term is defined in National Instrument 45-106 Prospectus Exemptions and a "permitted client" as such term is defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada nor should it be construed as being tailored to the needs of the recipient. Canadian recipients are advised that JM Financial Securities, Inc., JM Financial Institutional Securities Limited, their affiliates and authorized agents are not responsible for, nor do they accept, any liability whatsoever for any direct or consequential loss arising from any use of this research report or the information contained herein.