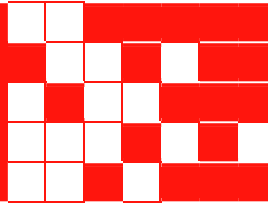


Macquarie Research Equities



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Stock:	GNC IN
Name:	Gujarat NRE Coke
Price:	Rs104.75
Market Cap (m):	Rs35,310
Market Cap (m):	US\$837
Current valuation (Sum of Parts):	Rs251.00
12mth price target:	Rs251.00
Recommendation:	Outperform

Event

- **Coal and coke going from strength to strength:** Xstrata (XTA LN, Under Restriction) declared record coking-coal contract prices for 2008 and Arcelor Mittal (MT NA, Not rated) bought a coke plant at nearly five times the value of a greenfield plant, underscoring the current boom in coke.

Impact

- **Xstrata fetched a record coking-coal price:** Xstrata in its half yearly filing revealed that it has completed its coking-coal contracts for 2008 at an average price of US\$362/tonne. This price is 277% higher than last year and about 20% higher than the coal contracts done earlier this year, indicating a further firming of prices.
- **Arcelor Mittal pays big dollar for a coke plant:** Arcelor Mittal is acquiring Koppers' Monessen coke plant with a production capacity of 0.32m for US\$160m, implying a valuation of US\$500/tonne of coke capacity. Arcelor Mittal's deal highlights the current tightness in the coke market and the continued value gap between coke and coking coal. GNC has announced its setting up a greenfield 1mtpa coke plant at an investment of US\$100/t, which will come up in 2 years, might be more valuable.
- **GNC's valuations pale in comparison to Austral's IPO pricing :** Austral, an upcoming coke manufacturer in India with an expected capacity of 0.37mtpa, is valued at US\$385/t of capacity at the lower end of its IPO band, while GNC's 1mt capacity net of the market value of its mining subsidiary is valued at just US\$20/t of capacity.

Action and recommendation

- **Maintain Outperform:** Recent coke spot sales from China have been reported at US\$740-750 per tonne. We believe Gujarat NRE Coke is one of the best ways to play the upcycle in coking coal and coke prices. It is trading at a deep discount to

its peers in spite of having one of the best growth profiles. We also recommend investors increase exposure in GNC to hedge their steel portfolios to counter the rising coal and coke costs for them.

March		2008A	2009E	2010E	2011E
Total revenue	m	11,594	32,015	46,348	47,080
EBITDA	m	1,540	10,761	17,628	18,047
Adjusted profit	m	1,684	5,241	9,145	8,212
EPS rep		3.31	13.99	23.86	21.48
EPS rep growth	%	128.5	322.4	70.6	-10.0
EPS adj		4.37	13.61	23.75	21.33
EPS adj growth	%	192.4	211.2	74.5	-10.2
PE rep	x	31.6	7.5	4.4	4.9
PE adj	x	23.9	7.7	4.4	4.9
Total DPS		0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
EV/EBITDA	x	31.3	4.5	2.7	2.7
GCFPS		0.00	0.00	0.00	0.00
PGCFPS	x	nmf	nmf	nmf	nmf
Net debt/equity	%	66.0	75.2	17.1	1.7
Price/book	x	3.5	2.5	1.4	1.1

*All values are in INR unless otherwise stated.

Source: Company data, Macquarie Research, Aug 2008.

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