COMPANY UPDATE

Uni-President Enterprise (1216.TW)

Buy

Discipline pay offs in volatile market; maintain Buy

What's changed

Uni-President (UPEC) reported slightly better-than-expected 9M08 earnings of NT$4.9bn, reaching 83% of our previous FY08 forecast (vs. 80% of consensus forecast) and implying NT$ 1.9bn profit for 3Q08, up 8.2% qoq, down 23.1% yoy. Despite the volatility in the equity market in 3Q2008, the decline in non-operating income is slightly narrower than our expectations. We attribute this to relatively stable equity income from F&B related subsidiaries and increasing discipline in controlling non-F&B equity investment.

Implications

We point to three main positives from the results: **1) strong China operations:** we reaffirm our positive stance given strong top-line growth in beverage products and slight margin expansion; **2) investment discipline:** the company has actively downsized the trading book of PIDC, one of its main investment companies since early 2008 help to lower/manage the market-related losses; **3) disposal of non-core investment:** one recent disposal brings an end to a loss-making textile subsidiary and reconfirms its strategy to focus on core business. This is UPEC's fourth non-core business disposal since 2007. Key challenges, in our view, would be the Taiwan provision business which might suffer from top-line and margin pressure due to weaker demand for smaller F&B peers (customer of provision business).

Valuation

We cut our 12-m SOTP-based TP to NT$33 (from NT$37) to reflect the latest market prices for UPEC's listed subsidiaries and apply a 15% discount to BV of its unlisted investment, given investors' increased concerns about volatility in equity investment. We reduce our 2008E-2010E earnings forecast by about 2% post 3Q results. We do not view these changes as material and maintain our positive view and Buy rating on UPEC.

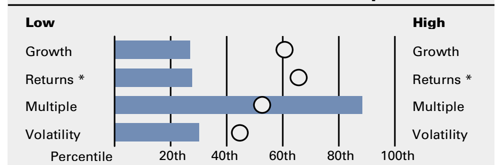
Key risks

On-going restructuring of its instant noodles business in China and volatile raw materials prices could form challenges for margin stability.

INVESTMENT LIST MEMBERSHIP
Asia Pacific Buy List

Coverage View: Neutral
Taiwan:
Food

Investment Profile: Uni-President Enterprise

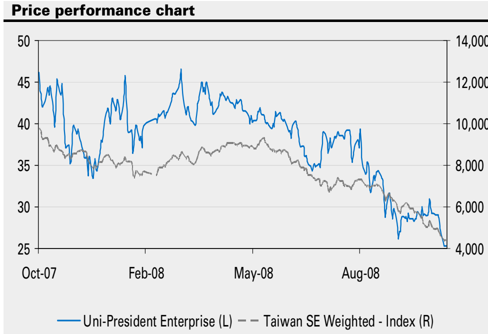


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (NT$)	25.25
12 month price target (NT$)	33.00
Market cap (NT$ mn / US$ mn)	94,258.3 / 2,817.2
Foreign ownership (%)	41.8

	12/07	12/08E	12/09E	12/10E
EPS (NT$) New	**3.10**	**1.62**	**1.84**	**2.08**
EPS revision (%)	0.0	(1.9)	(1.5)	(1.4)
EPS growth (%)	296.5	(47.9)	14.1	13.1
EPS (dil) (NT$) New	**3.02**	**1.58**	**1.80**	**2.04**
P/E (X)	8.1	15.6	13.7	12.1
P/B (X)	1.4	1.5	1.5	1.4
EV/EBITDA (X)	48.9	33.7	27.2	26.4
Dividend yield (%)	2.4	7.9	4.7	5.3
ROE (%)	20.3	9.4	11.0	12.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(33.8)	(39.7)	(45.9)
Rel. to Taiwan SE Weighted Index	5.4	21.6	20.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/29/2008 close.

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Uni-President Enterprise: Summary financials

Profit model (NT$ mn)	12/07	12/08E	12/09E	12/10E
Total revenue	**46,025.9**	**50,157.2**	**51,162.9**	**52,764.7**
Cost of goods sold	(35,861.1)	(39,952.5)	(40,038.3)	(41,578.5)
SG&A	(8,218.1)	(7,703.9)	(7,822.1)	(7,815.9)
R&D	(287.6)	(302.7)	(260.9)	(216.3)
Other operating profit/(expense)	0.0	0.0	0.0	0.0
EBITDA	**2,931.3**	**3,502.0**	**4,412.2**	**4,524.6**
Depreciation & amortization	(1,272.1)	(1,304.0)	(1,370.6)	(1,370.6)
EBIT	**1,659.2**	**2,198.0**	**3,041.6**	**3,154.0**
Interest income	0.5	0.0	0.0	0.0
Interest expense	(612.3)	(629.6)	(683.7)	(654.6)
Income/(loss) from uncons. subs.	8,976.5	3,058.0	3,743.6	4,509.7
Others	997.5	1,270.4	993.7	1,013.6
Pretax profits	**11,021.5**	**5,896.8**	**7,095.1**	**8,022.6**
Income tax	(4.5)	(59.0)	(212.9)	(240.7)
Minorities	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**11,017.0**	**5,837.8**	**6,882.2**	**7,781.9**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**11,017.0**	**5,837.8**	**6,882.2**	**7,781.9**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**11,017.0**	**5,837.8**	**6,882.2**	**7,781.9**
EPS (basic, pre-except) (NT$)	3.10	1.62	1.84	2.08
EPS (basic, post-except) (NT$)	3.10	1.62	1.84	2.08
EPS (diluted, post-except) (NT$)	3.02	1.58	1.80	2.04
DPS (NT$)	0.60	2.00	1.19	1.33
Dividend payout ratio (%)	19.4	123.8	64.5	63.8
Free cash flow yield (%)	3.3	5.3	5.5	5.4

Growth & margins (%)	12/07	12/08E	12/09E	12/10E
Sales growth	42.8	9.0	2.0	3.1
EBITDA growth	18.5	19.5	26.0	2.5
EBIT growth	16.3	32.5	38.4	3.7
Net income growth	278.5	(47.0)	17.9	13.1
EPS growth	296.5	(47.9)	14.1	13.1
Gross margin	22.1	20.3	21.7	21.2
EBITDA margin	6.4	7.0	8.6	8.6
EBIT margin	3.6	4.4	5.9	6.0

Cash flow statement (NT$ mn)	12/07	12/08E	12/09E	12/10E
Net income pre-preferred dividends	11,017.0	5,837.8	6,882.2	7,781.9
D&A add-back	1,272.1	1,304.0	1,370.6	1,370.6
Minorities interests add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	(696.9)	(418.3)	(106.0)	(406.7)
Other operating cash flow	(6,563.6)	(744.4)	(1,677.7)	(2,397.7)
Cash flow from operations	**5,028.6**	**5,979.1**	**6,469.2**	**6,348.1**
Capital expenditures	(518.9)	(550.0)	(600.0)	(600.0)
Acquisitions	(587.0)	(200.0)	(200.0)	(200.0)
Divestitures	0.0	0.0	0.0	0.0
Others	(2.3)	0.0	0.0	0.0
Cash flow from investments	**(1,108.2)**	**(750.0)**	**(800.0)**	**(800.0)**
Dividends paid (common & pref)	(2,012.5)	(7,110.7)	(4,442.4)	(4,965.1)
Inc/(dec) in debt	(6,546.3)	1,900.0	(920.0)	(510.0)
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0
Other financing cash flows	4,604.6	13.2	(187.9)	(188.0)
Cash flow from financing	**(3,954.2)**	**(5,197.5)**	**(5,550.4)**	**(5,663.1)**
Total cash flow	**(33.8)**	**31.6**	**118.8**	**(115.0)**

Balance sheet (NT$ mn)	12/07	12/08E	12/09E	12/10E
Cash & equivalents	108.1	139.7	258.5	143.5
Accounts receivable	5,509.6	6,308.2	6,026.9	6,694.4
Inventory	4,078.9	4,021.1	4,315.7	4,341.8
Other current assets	533.1	580.9	592.6	611.1
Total current assets	**10,229.7**	**11,049.9**	**11,193.7**	**11,790.8**
Net PP&E	7,198.4	6,488.6	5,762.1	5,035.7
Net intangibles	0.0	0.0	0.0	0.0
Total investments	69,869.6	70,427.1	72,346.0	75,009.3
Other long-term assets	8,050.3	8,006.2	7,962.0	7,917.8
Total assets	**95,348.1**	**95,971.8**	**97,263.8**	**99,753.6**
Accounts payable	2,246.9	2,569.3	2,476.6	2,763.4
Short-term debt	4,801.8	5,101.8	4,951.8	4,891.8
Other current liabilities	2,419.7	2,636.9	2,689.8	2,774.0
Total current liabilities	**9,468.5**	**10,308.1**	**10,118.3**	**10,429.3**
Long-term debt	20,223.7	21,823.7	21,053.7	20,603.7
Other long-term liabilities	2,424.2	2,641.8	2,694.7	2,779.1
Total long-term liabilities	22,647.9	24,465.5	23,748.5	23,382.8
Total liabilities	**32,116.4**	**34,773.6**	**33,866.7**	**33,812.1**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**63,231.7**	**61,198.2**	**63,397.1**	**65,941.5**
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	**95,348.1**	**95,971.8**	**97,263.8**	**99,753.6**
BVPS (NT$)	**17.78**	**16.39**	**16.98**	**17.66**

Ratios	12/07	12/08E	12/09E	12/10E
ROE (%)	20.3	9.4	11.0	12.0
ROA (%)	12.7	6.1	7.1	7.9
ROACE (%)	14.7	7.3	8.5	9.3
Inventory days	34.4	37.0	38.0	38.0
Receivables days	45.1	43.0	44.0	44.0
Payable days	22.0	22.0	23.0	23.0
Net debt/equity (%)	39.4	43.8	40.6	38.4
Interest cover - EBIT (X)	2.7	3.5	4.4	4.8

Valuation	12/07	12/08E	12/09E	12/10E
P/E (analyst) (X)	8.1	15.6	13.7	12.1
P/B (X)	1.4	1.5	1.5	1.4
EV/EBITDA (X)	48.9	33.7	27.2	26.4
Dividend yield (%)	2.4	7.9	4.7	5.3

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Analyst Contributors

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Key positives:

- Key positive trends in China operations:
  1) robust growth in RTD-tea products (>25% yoy in terms of revenues for 9M2008), the biggest profit contributor to the China operations at present;
  2) lower-than-expected decline in juice beverages revenue, as competition moderated significantly in 3Q2008;
  3) slight margin expansion: the positive trends in both gross and operating margins, despite inflationary pressure, were a surprise to us.
- Excluding the disposal gains in 2007/year-to-date, we think the decline in equity income is actually narrower than our expectations and the non-operating income is slightly ahead of our original estimates (see Exhibit 1). We attribute this to relative stable equity income from F&B related subsidiaries, e.g. TTET Union (1232.TW, NC) and President Chain Stores (2912.TW, Neutral), and increasing discipline in controlling non-F&B equity investment. Management noted PIDC, a 62.5%-owned investment company, has downsized its short-term investments in the equity market since early 2008 to comply with group strategy to focus on core business. We think such discipline has paid off in the current environment.
- Also, we see more evidence on the company's effort to liquidate non-core investments that have directed investor focus from its core business in the past. UPEC recently announced the sale of its loss-making textile company located in Nicaragua to a local customer. This is its fourth non-core disposal since 2007, following the sale of Accuray (ARAY, NC) and President Allianz Insurance (unlisted) in 2007, and liquidating shareholding in Mospec Semiconductor (2434.TW, NC) in 1H2008. While UPEC have not disclosed the transaction details, such moves echo our view on the potential long-term positive impact of balance sheet restructuring and improvement in ROE/ROA.

Exhibit 1: Uni-President quarterly financial summary

Simplified P&L	3Q07A	2Q08A	3Q08A	Qoq (%)	Yoy (%)	9M08	% achieved
Revenues	13,005	13,154	13,547	3.0%	4.2%	38,949	78.3%
COGS	(10,176)	(10,570)	(10,945)	3.5%	7.6%	(31,245)	79.4%
Gross profit	**2,830**	**2,585**	**2,602**	**0.7%**	**(8.0%)**	**7,704**	**74.2%**
Op expenses	(2,220)	(2,117)	(2,144)	1.3%	(3.4%)	(6,185)	77.9%
Op profit	**610**	**467**	**458**	**(2.0%)**	**(24.9%)**	**1,519**	**62.2%**
Non-op income	**1,877**	**1,256**	**1,326**	**(4.1%)**	**(29.4%)**	**3,403**	**92.1%**
One-off disposal/FX losses		127				(14)	
Pre-tax income	2,488	1,850	1,784	(3.6%)	(28.3%)	4,908	80.0%
Tax	51	(45)	170	NM	NM	28	NM
Net income	**2,539**	**1,805**	**1,953**	**8.2%**	**(23.1%)**	**4,936**	**82.9%**

Source: Company data.

Negatives:

- Provision division (sale of soft commodities and raw materials to smaller F&B manufacturers in Taiwan) face further top-line and margin pressure in 3Q2008. According to management, this is attributable to the end demand decline for 2nd and 3rd tier brands, rather than the weakness in soft commodity prices. We expect the weakness in the provision division to continue in 4Q2008.

- Instant noodle business in China continues to go through restructuring, including UPEC's withdrawal from low-priced instant noodles and applicable capacity/channel adjustment. Management stated that the restructuring progress will continue in 4Q2008. Although we acknowledge the positive strategy change, we believe it is unlikely that instant noodles would become a stable profit engine for UPEC China in the near term.

Exhibit 2: SOTP change - Uni-President

Sum-of-the-part valuation	Old	New	Change	Breakdown (%)	Methodology
	NT$	NT$	(%)	(%)	
Taiwan operation	13.8	13.6	(1.8%)	31.4%	DCF-based
China operation	6.9	7.3	5.7%	16.8%	12x 09 P/E
Listed equity investments	15.4	12.3	(19.6%)	28.5%	Market value, GS target price
Unlisted investments	11.9	10.1	(15.0%)	23.3%	Book value as of 2Q2008, 15% discount
Subtotal	**48.0**	**43.3**	**(9.7%)**		
Deduct: net debt	(4.7)	(4.8)			
Net NAV	**43.3**	**38.5**	**(11.1%)**		
Discount to NAV	15%	15%			
12-mn target price	**36.8**	**32.7**	**(11.1%)**		

Source: Company data, Goldman Sachs Research estimates.

Exhibit 3: Earnings revision - Uni-President

Earnings revision	2008E			2009E		
	Old	New	Chg (%)	Old	New	Chg (%)
Revenues	49,745	50,157	0.8%	50,726	51,163	0.9%
Gross profit	10,384	10,205	(1.7%)	11,228	11,125	(0.9%)
Op profit	2,444	2,198	(10.0%)	3,214	3,042	(5.4%)
Non-op income	3,694	3,699	0.1%	3,989	4,054	1.6%
Net income	5,953	5,838	(1.9%)	6,987	6,882	(1.5%)

Source: Company data, Goldman Sachs Research estimates.

Exhibit 4: Price-to-earnings – Uni-President

Source: Company data, Goldman Sachs Research estimate

Exhibit 5: P/B to ROE – Uni-President

Source: Company data, Goldman Sachs Research estimate

Reg AC

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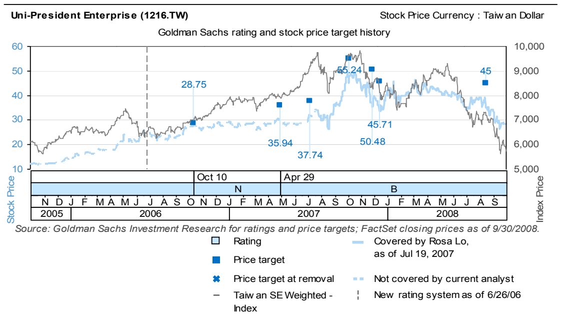
Price target and rating history chart(s)



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Definitions

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