



EARNINGS PREVIEW Acer (2353.TW)

Buy

Anticipate 3Q core earnings better than our forecasts

What we expect

Acer posted robust Sep parent sales of NT\$54bn, up 46% mom (49% yoy). 3Q parent sales also grew 25% qoq (40% yoy). We think Acer's 3Q sales (consolidated) may grow at the high end of the company's guidance range of 20%-25%, vs our forecast of 24%. We maintain our 3Q OP margin forecast of slightly better than 2Q. However, due to sharp euro depreciation in 3Q (down 11% vs USD), we think Acer may book forex losses. Also because of recent stock market weakness, Acer may report lower disposal gains on its long term investments than we expected. We think 3Q core earnings should be better than our forecast and in-line with market consensus, but net earnings may be slightly below our forecast. Acer will report 3Q earnings on Oct 31.

What could surprise us

Acer again showed the highest yoy growth in 3Q PC/NB shipments among the top 5 global PC brands, according to IDC and Gartner. We expect Acer's NB/netbook growth momentum to continue in Oct due to unfulfilled demand in Sep and strong netbook demand. We expect Acer to guide high single digit to low teen percentage growth in 4Q revenues from 3Q. However, we note the potential risks for all OEM brands (including Acer) in Europe. Our channels checks suggest that banks are tightening credit lines; therefore, some channel distributors have requested extensions to their payment terms from OEMs and clone brand companies. If these channels cannot get payment term extensions, it may have the positive consequence of capping inventory built, but would also negatively cap growth. In contrast, if OEMs agree to extend payment terms to the distribution channels, they may face default risk. We recommend investors closely watch development of credit lines for the distribution channels. Our 12-month TP, rating and earnings forecasts remain unchanged.

Exhibit 1: 3Q earnings forecast Comparison

Company	Ticker	GS forecast (NT\$ M)		Consensus (NT\$ M)	
		EBIT	Earnings	EBIT	Earnings
Acer	2353.TW	3,293	2,979	3,491	2,985

Source: Reuters, Goldman Sachs Research

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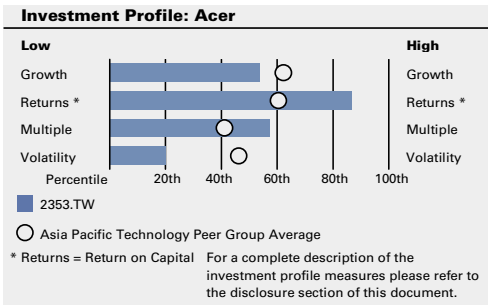
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Taiwan:
Hardware

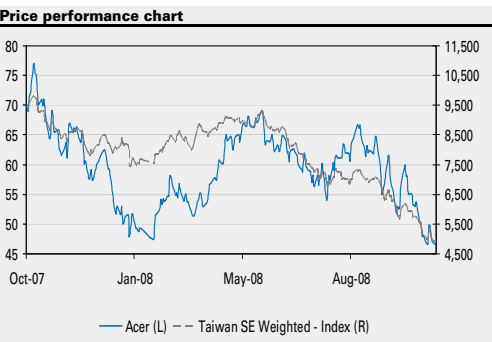
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Key data	Current
Price (NT\$)	46.55
12 month price target (NT\$)	80.00
Market cap (NT\$ mn / US\$ mn)	115,191.4 / 3,537.4
Foreign ownership (%)	44.1

	12/07	12/08E	12/09E	12/10E
EPS (NT\$)	5.40	5.07	5.54	6.29
EPS growth (%)	25.0	(6.2)	9.4	13.5
EPS (diluted) (NT\$)	5.40	5.07	5.54	6.29
EPS (basic pre-ex) (NT\$)	5.19	5.02	5.54	6.29
P/E (X)	8.6	9.2	8.4	7.4
P/B (X)	1.5	1.9	1.9	1.8
EV/EBITDA (X)	11.9	7.0	6.2	5.3
Dividend yield (%)	7.6	8.7	8.9	10.1
ROE (%)	17.2	18.1	22.8	24.7



Share price performance (%)	3 month	6 month	12 month
Absolute	(18.9)	(27.3)	(31.5)
Rel. to Taiwan SE Weighted Index	12.1	33.7	33.5

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/20/2008 close.

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Acer: Summary financials

Profit model (NT\$ mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (NT\$ mn)	12/07	12/08E	12/09E	12/10E
Total revenue	462,066.1	582,552.1	702,000.4	800,414.3	Cash & equivalents	37,945.3	29,467.0	22,792.1	22,022.8
Cost of goods sold	(414,647.8)	(519,655.1)	(626,053.3)	(713,838.0)	Accounts receivable	102,346.8	112,888.1	115,209.7	123,511.6
SG&A	(36,883.5)	(49,215.1)	(59,333.0)	(67,413.2)	Inventory	33,815.7	39,137.2	43,035.8	50,504.9
R&D	(349.7)	(576.1)	(681.4)	(777.1)	Other current assets	17,518.4	16,889.6	17,846.9	18,034.5
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	191,626.2	198,381.9	198,884.5	214,073.8
ESO expense	(2,759.5)	(2,072.0)	(2,072.0)	(2,072.0)	Net PP&E	8,636.4	12,585.6	12,649.8	12,628.6
EBITDA	11,327.6	14,414.8	17,318.8	19,845.8	Net intangibles	7,524.7	0.0	0.0	0.0
Depreciation & amortization	(1,142.5)	(1,309.1)	(1,386.0)	(1,459.8)	Total investments	0.0	0.0	0.0	0.0
EBIT	10,185.1	13,105.8	15,932.8	18,386.0	Other long-term assets	24,293.4	0.0	0.0	0.0
Interest income	1,343.5	1,190.0	1,224.0	1,258.0	Total assets	243,283.3	252,436.0	251,994.6	266,255.3
Interest expense	(759.9)	(988.2)	(948.7)	(849.7)	Accounts payable	80,843.0	94,002.1	97,352.4	110,942.4
Income/(loss) from uncons. subs.	695.7	562.3	600.0	600.0	Short-term debt	5,372.1	5,372.1	5,372.1	5,372.1
Others	3,644.2	1,503.7	600.0	500.0	Other current liabilities	56,627.4	75,392.7	74,080.2	72,625.0
Pretax profits	15,108.6	15,373.5	17,408.1	19,894.3	Total current liabilities	142,842.6	174,766.9	176,804.8	188,939.6
Income tax	(2,665.6)	(3,237.9)	(4,022.2)	(4,696.2)	Long-term debt	16,790.9	12,407.0	9,407.0	6,407.0
Minorities	(2.0)	(0.5)	0.0	0.0	Other long-term liabilities	6,840.2	6,840.2	6,840.2	6,840.2
Net income pre-preferred dividends	12,443.1	12,135.7	13,385.9	15,198.1	Total long-term liabilities	23,631.1	19,247.2	16,247.2	13,247.2
Preferred dividends	0.0	0.0	0.0	0.0	Total liabilities	166,473.6	194,014.1	193,052.0	202,186.8
Net income (pre-exceptionals)	12,443.1	12,135.7	13,385.9	15,198.1	Preferred shares	0.0	0.0	0.0	0.0
Post-tax exceptionals	517.9	100.0	0.0	0.0	Total common equity	76,809.7	58,421.9	58,942.6	64,068.5
Net income	12,958.9	12,235.2	13,385.9	15,198.1	Minority interest	599.3	599.3	599.3	599.3
EPS (basic, pre-except) (NT\$)	5.19	5.02	5.54	6.29	Total liabilities & equity	243,283.3	252,436.0	251,994.6	266,255.3
EPS (basic, post-except) (NT\$)	5.40	5.07	5.54	6.29	BVPS (NT\$)	32.01	24.19	24.40	26.52
EPS (diluted, post-except) (NT\$)	5.40	5.07	5.54	6.29	Ratios	12/07	12/08E	12/09E	12/10E
EPS excl. ESO expense (basic) (NT\$)	5.40	5.83	6.20	6.95	ROE (%)	17.2	18.1	22.8	24.7
EPS excl. ESO expense (dil.) (NT\$)	5.40	5.83	6.20	6.95	ROA (%)	6.0	4.9	5.3	5.9
DPS (NT\$)	3.55	4.05	4.16	4.72	ROACE (%)	25.8	22.0	26.7	28.1
Dividend payout ratio (%)	65.7	80.0	75.0	75.0	Inventory days	26.3	25.6	24.0	23.9
Free cash flow yield (%)	(3.6)	6.2	4.3	10.2	Receivables days	68.3	67.4	59.3	54.4
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Payable days	64.8	61.4	55.8	53.3
Sales growth	25.2	26.1	20.5	14.0	Net debt/equity (%)	(20.5)	(20.0)	(8.5)	(11.3)
EBITDA growth	27.2	27.3	20.1	14.6	Interest cover - EBIT (X)	NM	NM	NM	NM
EBIT growth	30.4	28.7	21.6	15.4	Valuation	12/07	12/08E	12/09E	12/10E
Net income growth	26.8	(5.6)	9.4	13.5	P/E (analyst) (X)	8.6	9.2	8.4	7.4
EPS growth	25.0	(6.2)	9.4	13.5	P/B (X)	1.5	1.9	1.9	1.8
Gross margin	10.3	10.8	10.8	10.8	EV/EBITDA (X)	11.9	7.0	6.2	5.3
EBITDA margin	2.5	2.5	2.5	2.5	Dividend yield (%)	7.6	8.7	8.9	10.1
EBIT margin	2.2	2.2	2.3	2.3	Cash flow statement (NT\$ mn)	12/07	12/08E	12/09E	12/10E
Cash flow statement (NT\$ mn)	12/07	12/08E	12/09E	12/10E	Net income pre-preferred dividends	12,443.1	12,135.7	13,385.9	15,198.1
Net income pre-preferred dividends	12,443.1	12,135.7	13,385.9	15,198.1	D&A add-back	1,142.5	1,309.1	1,386.0	1,459.8
D&A add-back	1,142.5	1,309.1	1,386.0	1,459.8	Minorities interests add-back	0.0	0.0	0.0	0.0
Minorities interests add-back	0.0	0.0	0.0	0.0	Net (inc)/dec working capital	(25,231.0)	(2,703.7)	(2,869.9)	(2,181.1)
Net (inc)/dec working capital	(25,231.0)	(2,703.7)	(2,869.9)	(2,181.1)	Other operating cash flow	4,568.8	(4,974.4)	(6,469.8)	(2,542.8)
Other operating cash flow	4,568.8	(4,974.4)	(6,469.8)	(2,542.8)	Cash flow from operations	(6,560.8)	5,866.1	5,432.2	11,934.1
Cash flow from operations	(6,560.8)	5,866.1	5,432.2	11,934.1	Capital expenditures	685.8	956.2	(842.4)	(800.4)
Capital expenditures	685.8	956.2	(842.4)	(800.4)	Acquisitions	(217.1)	(65.3)	0.0	0.0
Acquisitions	(217.1)	(65.3)	0.0	0.0	Divestitures	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	Others	2,272.6	5,465.4	2,208.2	1,807.4
Others	2,272.6	5,465.4	2,208.2	1,807.4	Cash flow from investments	2,741.2	6,356.3	1,365.8	1,007.0
Cash flow from investments	2,741.2	6,356.3	1,365.8	1,007.0	Dividends paid (common & pref)	(9,395.4)	(11,015.1)	(9,788.2)	(10,039.4)
Dividends paid (common & pref)	(9,395.4)	(11,015.1)	(9,788.2)	(10,039.4)	Inc/(dec) in debt	14,354.2	(8,292.3)	(3,000.0)	(3,000.0)
Inc/(dec) in debt	14,354.2	(8,292.3)	(3,000.0)	(3,000.0)	Common stock issuance (repurchase)	0.0	0.0	0.0	0.0
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0	Other financing cash flows	(8,858.2)	(509.2)	(684.8)	(671.0)
Other financing cash flows	(8,858.2)	(509.2)	(684.8)	(671.0)	Cash flow from financing	(3,899.4)	(19,816.6)	(13,472.9)	(13,710.4)
Cash flow from financing	(3,899.4)	(19,816.6)	(13,472.9)	(13,710.4)	Total cash flow	(6,739.9)	(8,478.3)	(6,674.9)	(769.3)
Total cash flow	(6,739.9)	(8,478.3)	(6,674.9)	(769.3)					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Reg AC

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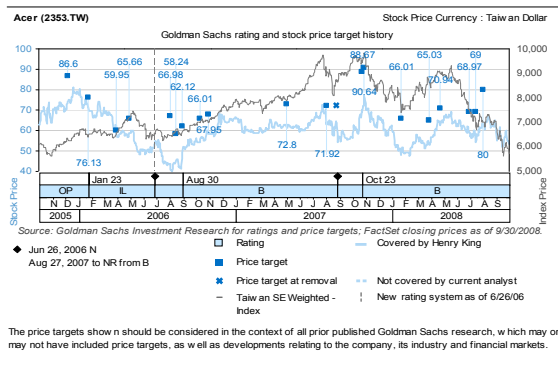
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Price target and rating history chart(s)



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