

- Our 2008 estimates are lower than consensus due to lower non-operating contribution.
- We are more optimistic than the Street on Acer's merger synergy with Gateway and Packard Bell.

Net Profit 08 ... TWD12.17b  
.....(From TWD12.16b)

Diff from Consensus..(6.4%)  
Consensus (mean) .... TWD13.00b  
Consensus (momentum) ..... ↑

Target Price..... TWD70.00  
.....(From TWD72.00)

Diff from Consensus . (6.7%)  
Consensus (median) .... TWD75.00  
Consensus (momentum) ..... ↓

Current Price..... TWD53.20  
Upside/(Downside).....31.6%

**BUY**  
(Unchanged)

Recs in the Market

Positive ..... **18**  
Neutral ..... **4**  
Negative ..... **0**  
Consensus (momentum) ..... ↑

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Reiterate BUY and lower target price slightly to TWD70.00; likely to meet its optimistic 3Q08 guidance.
- Acer to be a key beneficiary and a dominant player following the netbook emergence (an est. USD9b market by 2010E).
- A defensive play supported by net cash position, low valuation (below 10x 2009 P/E) and 6% dividend yield.

## 3Q Preview: An optimistic 3Q08

Delivering optimistic 3Q08 guidance

We expect Acer to report 3Q08 EPS of TWD1.09, down 8.8% y-y and 1.9% q-q on lower non-operating income. At the operating level, we expect operating profit to grow 24.9% y-y and 29.3% q-q driven by strong notebook (NB) shipment growth, which was partially offset by softer demand in monitors and desktops. Acer previously guided: 1) sales to grow 20-25% q-q; 2) NB shipment to grow 60-70% q-q (30-35% from regular size NB and 30-35% from Aspire One); and 3) operating margin to stay flat or rise slightly. We believe it is on track to deliver mid high-end of the sales guidance (23-25% sales growth) and its margin guidance.

Supply-chain check indicates low visibility in 4Q08

Our supply-chain check indicates likely peak sales in September for PC component vendors and we expect their NB related sales to be flat or grow by mid-single digits q-q, similar to 4% q-q sales growth in 4Q07 but lower than 12% in 4Q06. Our checks also suggest continued strength of netbook, but regular notebook growth is decelerating compared to 1H08.

Key beneficiary of the netbook emergence

In our netbook theme report "Grabbing a piece of the USD9b pie" dated 18 September, we identified netbooks as a bright spot in a weak market with shipment CAGR of 60% in 2008-10E to 28.5m in 2010. We believe Acer will be a key beneficiary of the netbook emergence, supported by its brand name and distribution channels. We expect its netbooks to account for 20-25% of its shipment and 10-12% of its earnings contribution.

Valuation: Target price TWD70.00

Our target price of TWD70.00 is based on sum-of-the-parts valuation with TWD58.80/share for its 2009 core earnings at 12-13x, TWD4.00 from market value of its investment and TWD7.35 from its net cash position. Our TP of TWD70 is also equivalent to 13x bonus-adjusted 2009 P/E.

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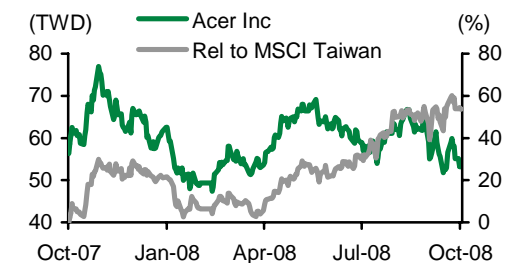
(Full BNP Paribas technology research team list inside)

### Earnings Estimates And Valuation Ratios

| YE Dec (TWD m)          | 2007    | 2008E   | 2009E   | 2010E   |
|-------------------------|---------|---------|---------|---------|
| Revenue                 | 462,066 | 572,253 | 652,042 | 758,991 |
| Reported net profit     | 12,959  | 12,169  | 13,968  | 16,871  |
| Recurring net profit    | 12,959  | 12,169  | 13,968  | 16,871  |
| Previous rec net profit | 12,959  | 12,157  | 14,248  | 17,722  |
| Chg from previous (%)   | —       | 0.1     | (2.0)   | (4.8)   |
| Recurring EPS (TWD)     | 5.31    | 4.60    | 5.29    | 6.38    |
| Previous rec EPS        | 5.35    | 4.95    | 5.76    | 7.16    |
| Rec EPS growth (%)      | 23.6    | (13.2)  | 14.8    | 20.8    |
| Recurring P/E (x)       | 10.0    | 11.6    | 10.1    | 8.3     |
| Dividend yield (%)      | 4.1     | 6.2     | 5.8     | 4.9     |
| EV/EBITDA (x)           | 6.0     | 6.9     | 6.3     | 5.0     |
| Price/book (x)          | 1.7     | 1.7     | 1.6     | 1.5     |
| ROE (%)                 | 16.9    | 15.4    | 16.7    | 18.4    |
| Net debt/equity (%)     | (24.4)  | (24.5)  | (26.4)  | (30.6)  |

Sources: Acer Inc; BNP Paribas estimates

### Share Price Daily vs MSCI



|                                |                     |
|--------------------------------|---------------------|
| Next results/event             | October 2008        |
| Market cap (USD m)             | 4,105               |
| 12m avg daily turnover (USD m) | 35.3                |
| Free float (%)                 | 68                  |
| Major shareholder              | Shih Chen-Rong (3%) |
| 12m high/low (TWD)             | 76.95/47.39         |
| ADR (USD)                      | Nil                 |
| Avg daily turnover (USD m)     | Nil                 |
| Discount/premium (%)           | Nil                 |
| Disc/premium vs 52-wk avg (%)  | Nil                 |

Source: Datastream

BNP Paribas research is available on Thomson Reuters, Bloomberg, and on <http://equities.bnpparibas.com>. Please contact your salesperson for authorisation. Please see the important notice on the back page.

### Delivering optimistic 3Q08 guidance

We expect Acer to report 3Q08 EPS of TWD1.09, down 8.8% y-y and 1.9% q-q on lower non-operating income. At the operating level, we expect operating profit to grow 24.9% y-y and 29.3% q-q driven by strong notebook shipment growth, which was partially offset by softer demand in monitors and desktops. Aspire One should be on track to deliver 2.2-2.5m units. We believe Acer will meet the low end of its guidance given the IMR (in-mold rollor) shortage. For the non-op income/expenses, we expect some FX loss given the EUR depreciation against the USD, and factor in TWD200m FX loss in 3Q08. Acer has a natural hedge with 40-45% of sales denominated in Euro, remaining sales mostly in USD, and its cost 85-90% in USD. We believe the weakened EUR is generally negative to Acer as it will put pressure on its margin, create possible FX loss and weaken purchasing power of European consumers.

**Expect 2.2-2.3m units shipment of Aspire One, at the low end of its guidance, due to IMR shortage**

Company earlier guided: 1) sales to grow 20-25% q-q; 2) NB shipment to grow 60-70% q-q (30-35% from regular size NB and 30-35% from Aspire One); and 3) operating margin to stay flat or rise slightly. We believe it is on track to deliver mid high end of the sales guidance (23-25% sales growth) and its margin guidance.

#### Exhibit 1: 3Q08 Results Preview

| Year-end 31 Dec             | 3Q08E<br>(TWD m) | 2Q08<br>(TWD m) | Change<br>(q-q %) | 3Q07<br>(TWD m) | Change<br>(y-y %) |
|-----------------------------|------------------|-----------------|-------------------|-----------------|-------------------|
| Net revenues                | 154,685          | 124,790         | 24.0              | 121,934         | 26.9              |
| Gross profit                | 16,746           | 13,496          | 24.1              | 12,517          | 33.8              |
| Operating profit            | 3,506            | 2,711           | 29.3              | 2,807           | 24.9              |
| Net profit                  | 2,878            | 2,935           | (1.9)             | 2,917           | (1.3)             |
| EPS (TWD)                   | 1.09             | 1.11            | (1.9)             | 1.19            | (8.8)             |
| <i>Gross margin (%)</i>     | 10.8             | 10.8            |                   | 10.3            |                   |
| <i>Operating margin (%)</i> | 2.3              | 2.2             |                   | 2.3             |                   |
| <i>Net margin (%)</i>       | 1.9              | 2.4             |                   | 2.4             |                   |

Sources: Gartner; BNP Paribas estimates

### Supply-chain check indicates low visibility in 4Q08

Our supply-chain check indicates likely peak sales in September for PC component vendors with low visibility, and high uncertainty with rolling forecast on hand for 4Q08. With current visibility, PC component vendors such as keyboard, webcam module makers, NB hinge and battery pack suppliers, indicating their NB related sales will be flat or grow by mid single digit q-q, similar to 4% q-q sales growth in 4Q07 but lower than 12% in 4Q06. Our check also suggests continued strength of netbooks but regular notebook growth is decelerating compared to 1Q-3Q08.

### Key beneficiary of the netbook emergence – a dominate player

The emergence of netbooks expands the addressable market for notebooks. In our netbook theme report “Grabbing a piece of the USD 9bn pie” dated September 18, we identified netbook as the bright spot in a weak market with shipment CAGR of 60% in 2008-10E to 28.5m in 2010 and account for 13% of the notebook market in 2010E. The demand will be mainly driven by: 1) cheaper prices that lower the threshold for first-time PC buyers; 2) demand for second NB for light usage; 3) replacement demand of existing desktops or NBs; and 4) expanded distribution channels with teleco operators. With all the major PC OEMs jumping into this new market in 2H08, we believe the netbook market represents an USD9b market potential, assuming an ASP decline of 15% y-y in 2009-10E from an average of USD400-450 in 2008.

**Netbooks appeal as an inexpensive alternative in a soft economy with USD9b market potential in 2010E**

We believe Acer will be a key beneficiary of the netbook emergence, supported by its brand name and distribution channel. We expect its netbooks will account for 20-25% of its shipment and 10-12% of its earnings contribution.

**Expect Acer's netbook to account for 20-25% of shipment and 10-12% of earnings in 2009**

The chart below shows our predictions for the global PC market, which we expect to grow 10.3% and 12.2% in 2009 and 2010E, with flat desktop shipments due to stalled corporate IT spending and slower notebook growth of 18% CAGR in 2008-10E, due to more conservative consumer spending and cannibalization of the market from netbooks. The slower growth of regular notebooks should be offset by strong 60% shipment growth CAGR in 2008-10E for netbooks.

On a combined basis, for both regular and netbooks, we expect total NB to grow 21-22% in 2009-10E and account for 60% of the PC market in 2010E, up from 50% in 2008E.

#### Exhibit 2: Global PC Market

|                     | 2007  | 2008E | 2009E | 2010E |
|---------------------|-------|-------|-------|-------|
| Desktop             | 151.8 | 148.6 | 146.4 | 147.2 |
| Change (y-y %)      | 4.0   | (2.1) | (1.5) | 0.6   |
| Notebook            | 109.7 | 136.2 | 158.9 | 190.7 |
| Change (y-y %)      | 33.0  | 24.2  | 16.7  | 20.0  |
| Netbooks (<10-inch) | 0.3   | 11.2  | 21.3  | 28.5  |
| Change (y-y %)      | na    | nm    | 90.2  | 33.8  |
| NB & Netbook        | 110.0 | 147.4 | 180.2 | 219.2 |
| Change (y-y %)      | 33.0  | 34.0  | 22.2  | 21.6  |
| Global PC market    | 261.8 | 296.0 | 326.6 | 366.4 |
| Change (y-y %)      | 14.6  | 13.1  | 10.3  | 12.2  |

Source: BNP Paribas estimates

#### Earning adjustment

We reduce Acer's EPS by 6.9% and 8.2% in 2008-09E to TWD4.60 and TWD5.29 to reflect the 6.8% share dilution for issuing new shares to acquire E-ten on 1 September 2008. We also fine tune our non-op assumption in 3Q-4Q08 due to weakened EUR and minor adjustments to 2009 sales and expense figures.

#### Exhibit 3: Earnings Revision – 3Q08-4Q09E

| YE 31 Dec (TWD m)   | 3Q08E       | 4Q08E       | 2008E       | 1Q09E       | 2Q09E       | 3Q09E       | 4Q09E       | 2009E       |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Old forecast</b> |             |             |             |             |             |             |             |             |
| Net sales           | 154,712     | 165,431     | 572,329     | 144,329     | 137,186     | 172,486     | 204,233     | 658,234     |
| Gross profit        | 16,750      | 17,985      | 61,700      | 15,486      | 14,773      | 18,409      | 21,804      | 70,473      |
| Gross margin (%)    | 10.8        | 10.9        | 3.8         | 10.7        | 10.8        | 10.7        | 10.7        | 3.8         |
| Operating profit    | 3,508       | 3,979       | 12,938      | 3,475       | 3,328       | 4,293       | 5,181       | 16,277      |
| Op margin (%)       | 2.3         | 2.4         | 1.7         | 2.4         | 2.4         | 2.5         | 2.5         | 1.7         |
| Net profit          | 2,956       | 3,325       | 12,157      | 3,191       | 3,087       | 3,631       | 4,339       | 14,248      |
| Net margin (%)      | 1.9         | 2.0         | 2.0         | 2.2         | 2.3         | 2.1         | 2.1         | 2.0         |
| <b>EPS (TWD)</b>    | <b>1.20</b> | <b>1.35</b> | <b>4.95</b> | <b>1.29</b> | <b>1.25</b> | <b>1.47</b> | <b>1.75</b> | <b>5.76</b> |
| <b>New forecast</b> |             |             |             |             |             |             |             |             |
| Net sales           | 154,685     | 165,402     | 572,253     | 145,628     | 138,387     | 168,776     | 199,251     | 652,042     |
| Gross profit        | 16,746      | 17,981      | 61,688      | 15,619      | 14,895      | 18,001      | 21,260      | 69,776      |
| Gross margin (%)    | 10.8        | 10.9        | 3.8         | 10.7        | 10.8        | 10.7        | 10.7        | 3.8         |
| Operating profit    | 3,506       | 3,977       | 12,932      | 3,504       | 3,355       | 4,177       | 5,028       | 16,064      |
| Op margin (%)       | 2.3         | 2.4         | 1.7         | 2.4         | 2.4         | 2.5         | 2.5         | 1.7         |
| Net profit          | 2,878       | 3,403       | 12,169      | 3,219       | 3,046       | 3,545       | 4,158       | 13,968      |
| Net margin (%)      | 1.9         | 2.1         | 2.0         | 2.2         | 2.2         | 2.1         | 2.1         | 2.0         |
| <b>EPS (TWD)</b>    | <b>1.09</b> | <b>1.29</b> | <b>4.60</b> | <b>1.22</b> | <b>1.15</b> | <b>1.34</b> | <b>1.57</b> | <b>5.29</b> |
| <b>Revision (%)</b> |             |             |             |             |             |             |             |             |
| Net sales           | (0.0)       | (0.0)       | (0.0)       | 0.9         | 0.9         | (2.2)       | (2.4)       | (0.9)       |
| Gross profit        | (0.0)       | (0.0)       | (0.0)       | 0.9         | 0.8         | (2.2)       | (2.5)       | (1.0)       |
| Operating profit    | (0.1)       | (0.1)       | (0.0)       | 0.9         | 0.8         | (2.7)       | (2.9)       | (1.3)       |
| EPS                 | (9.5)       | (4.8)       | (6.9)       | (5.5)       | (7.6)       | (8.6)       | (10.3)      | (8.2)       |

Source: BNP Paribas estimates

Valuation: Target price TWD70

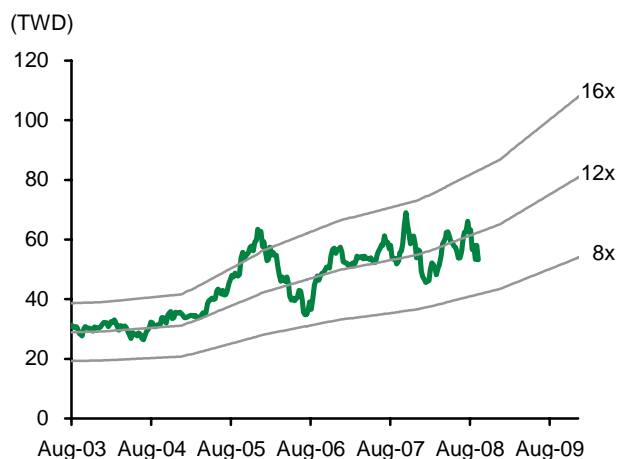
Our target price is based on sum-of-the-parts valuation with TWD58.80 per share for its 2009E core earnings at 12-13x, TWD4.0 from market value of its investment and TWD7.35 from its net cash position. Our TP of TWD70 is also equivalent to 13x bonus-adjusted 2009 P/E.

**Exhibit 4: Acer Investment As Of 2Q08**

| Major shareholding                        | BBG code | Stake (%) | Market value* (TWD m) | Book value (TWD m) | Potential gain (TWD m) |
|---|----------|-----------|-----------------------|--------------------|------------------------|
| Qisda                                     | 2352 TT  | 4.82      | 931                   | 1,384              | (453)                  |
| Wistron                                   | 3231 TT  | 4.56      | 2,456                 | 3,000              | (544)                  |
| Hon Hai                                   | 2317 TT  | 0.01      | 109                   | 21                 | 88                     |
| CDFH                                      | 2883 TT  | 0.12      | 120                   | 140                | (20)                   |
| Others including venture capital business |          |           | 6,837                 | 4,853              | 1,984                  |
| <b>Total</b>                              |          |           | <b>10,453</b>         | <b>9,398</b>       | <b>1,055</b>           |

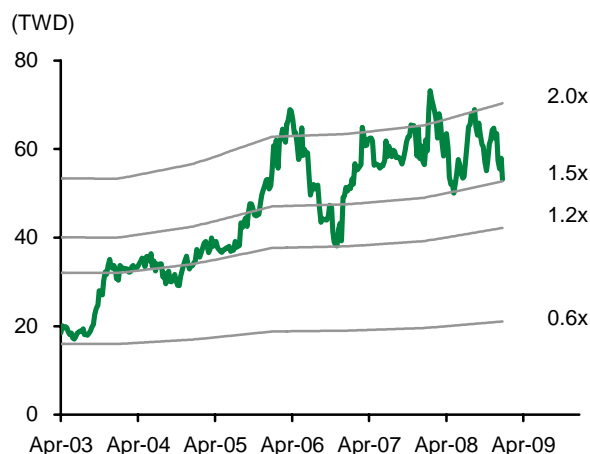
\* Market value as of 1 October 2008  
Source: BNP Paribas estimates

**Exhibit 5: P/E Band Chart**



Sources: Acer Inc; BNP Paribas estimates

**Exhibit 6: P/BV Band Chart**



Sources: Acer Inc; BNP Paribas estimates

## Exhibit 7: Valuation Comparison

| BGG code                | Company                | Share        | Target       | Upside      | Rating     | Market cap   | — EPS —     |             | — P/E —     |             | — P/BV —   |            | — ROE —     |             | Div yield  |
|-------------------------|------------------------|--------------|--------------|-------------|------------|--------------|-------------|-------------|-------------|-------------|------------|------------|-------------|-------------|------------|
|                         |                        | price        | price        |             |            |              | 2008E       | 2009E       | 2008E       | 2009E       | 2008E      | 2009E      | 2008E       | 2009E       | 2009E      |
|                         |                        | (TWD)        | (TWD)        | (%)         |            | (USD m)      | (TWD)       | (TWD)       | (x)         | (x)         | (x)        | (x)        | (x)         | (x)         | (%)        |
| <b>PC hardware</b>      |                        |              |              |             |            |              |             |             |             |             |            |            |             |             |            |
| <b>2353 TT</b>          | <b>Acer Inc</b>        | <b>53.20</b> | <b>70.00</b> | <b>31.6</b> | <b>BUY</b> | <b>4,105</b> | <b>4.60</b> | <b>5.29</b> | <b>11.6</b> | <b>10.1</b> | <b>1.7</b> | <b>1.6</b> | <b>15.4</b> | <b>16.7</b> | <b>5.8</b> |
| 2357 TT                 | ASUSTeK Computer       | 62.10        | —            | —           | NR         | 8,223        | 6.77        | 7.63        | 9.2         | 8.1         | 1.4        | 1.3        | 16.0        | 16.4        | 4.7        |
| 2317 TT                 | Hon Hai Precision      | 112.00       | 145.00       | 29.5        | BUY        | 25,896       | 8.43        | 9.49        | 13.3        | 11.8        | 1.7        | 1.5        | 15.3        | 16.4        | 3.1        |
| 2324 TT                 | Compal Electronics     | 23.35        | 34.00        | 45.6        | BUY        | 2,869        | 3.53        | 3.88        | 6.6         | 6.0         | 1.1        | 1.0        | 17.3        | 17.8        | 10.2       |
| 2382 TT                 | Quanta Computer        | 39.20        | 52.00        | 32.7        | HOLD       | 4,461        | 5.24        | 5.57        | 7.5         | 7.0         | 1.5        | 1.2        | 15.2        | 14.3        | 8.1        |
| 3231 TT                 | Wistron                | 39.00        | 60.00        | 53.9        | BUY        | 1,844        | 4.78        | 6.10        | 8.2         | 6.4         | 1.5        | 1.3        | 20.0        | 22.3        | 6.7        |
| 2356 TT                 | Inventec               | 15.40        | —            | —           | NR         | 1,230        | 2.13        | 2.53        | 7.2         | 6.1         | 1.0        | 1.0        | 13.9        | 15.3        | 8.5        |
| <b>Weighted average</b> |                        |              |              |             |            |              |             |             | <b>11.2</b> | <b>9.9</b>  | <b>1.5</b> | <b>1.4</b> | <b>15.7</b> | <b>16.5</b> |            |
| <b>NB components</b>    |                        |              |              |             |            |              |             |             |             |             |            |            |             |             |            |
| 2474 TT                 | Catcher Technology     | 93.30        | —            | —           | NR         | 1,576        | 8.87        | 10.22       | 10.5        | 9.1         | 1.8        | 1.5        | 18.0        | 18.4        | 3.3        |
| 2385 TT                 | Chicony Electronics    | 50.60        | —            | —           | NR         | 879          | 5.34        | 6.49        | 9.5         | 7.8         | 3.0        | 2.5        | 31.2        | 31.9        | 7.4        |
| 3211 TT                 | Dynapack Int'l         | 87.40        | —            | —           | NR         | 314          | 11.95       | 13.08       | 7.3         | 6.7         | 2.5        | 2.2        | 38.5        | 35.7        | 7.7        |
| 2354 TT                 | Foxconn Technology     | 102.50       | —            | —           | NR         | 2,710        | 8.07        | 9.87        | 12.7        | 10.4        | 1.7        | 1.5        | 14.3        | 17.2        | 3.3        |
| 3376 TT                 | Shin Zu Shing Co       | 126.00       | —            | —           | NR         | 488          | 10.20       | 12.69       | 12.3        | 9.9         | 2.9        | 2.5        | 25.4        | 27.1        | 4.5        |
| 6121 TT                 | Simplo Technology      | 108.00       | 146.00       | 35.2        | BUY        | 703          | 11.18       | 12.89       | 9.7         | 8.4         | 2.2        | 1.9        | 25.2        | 24.6        | 4.7        |
| 2387 TT                 | Sunrex Technology      | 25.50        | —            | —           | NR         | 297          | 3.17        | 3.97        | 8.1         | 6.4         | 1.5        | 1.2        | 19.7        | 21.5        | 6.1        |
| 3336 HK                 | Ju Teng Int'l Holdings | 3.24         | —            | —           | NR         | 3,240        | 0.63        | 0.82        | 5.2         | 4.0         | 1.2        | 1.0        | 26.7        | 27.8        | 2.2        |
| <b>Weighted average</b> |                        |              |              |             |            |              |             |             | <b>9.2</b>  | <b>7.5</b>  | <b>1.8</b> | <b>1.5</b> | <b>22.4</b> | <b>23.7</b> |            |
| <b>PC brand OEM</b>     |                        |              |              |             |            |              |             |             |             |             |            |            |             |             |            |
| AAPL US                 | Apple                  | 113.66       | —            | —           | NR         | 100,689      | 5.21        | 5.92        | 21.8        | 19.2        | 4.9        | 3.9        | 27.8        | 23.4        | 0.0        |
| DELL US                 | Dell                   | 16.48        | —            | —           | NR         | 32,274       | 1.46        | 1.71        | 11.3        | 9.6         | 11.2       | 8.2        | 89.2        | 190.2       | 0.0        |
| HPQ US                  | Hewlett-Packard        | 46.24        | —            | —           | NR         | 113,247      | 3.634       | 4.174       | 12.7        | 11.1        | 3.0        | 2.6        | 24.0        | 23.7        | 0.7        |
| <b>2353 TT</b>          | <b>Acer Inc</b>        | <b>53.20</b> | <b>70.00</b> | <b>31.6</b> | <b>BUY</b> | <b>4,105</b> | <b>4.60</b> | <b>5.29</b> | <b>11.6</b> | <b>10.1</b> | <b>1.7</b> | <b>1.6</b> | <b>15.4</b> | <b>16.7</b> | <b>5.8</b> |
| 992 HK                  | Lenovo Group           | 3.35         | —            | —           | NR         | 32,107       | 0.051       | 0.057       | 8.4         | 7.5         | 2.0        | 1.6        | 27.6        | 26.1        | 0.6        |
| <b>Weighted average</b> |                        |              |              |             |            |              |             |             | <b>15.3</b> | <b>13.4</b> | <b>4.5</b> | <b>3.6</b> | <b>33.1</b> | <b>42.8</b> |            |

NR = Not Rated

Sources: Bloomberg; BNP Paribas estimates

## FINANCIAL STATEMENTS

## Acer Inc

| <b>Profit and Loss (TWD m)</b>          |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Year Ending December</b>             | <b>2006A</b>  | <b>2007A</b>  | <b>2008E</b>  | <b>2009E</b>  | <b>2010E</b>  |
| Revenue                                 | 369,093       | 462,066       | 572,253       | 652,042       | 758,991       |
| Cost of sales ex depreciation           | (329,102)     | (413,505)     | (511,208)     | (582,942)     | (679,235)     |
| <b>Gross profit ex depreciation</b>     | <b>39,991</b> | <b>48,561</b> | <b>61,044</b> | <b>69,100</b> | <b>79,756</b> |
| Other operating income                  | -             | -             | -             | -             | -             |
| Operating costs                         | (31,087)      | (37,233)      | (46,658)      | (51,447)      | (58,646)      |
| <b>Operating EBITDA</b>                 | <b>8,904</b>  | <b>11,328</b> | <b>14,386</b> | <b>17,653</b> | <b>21,110</b> |
| Depreciation                            | (1,092)       | (1,142)       | (1,454)       | (1,589)       | (1,724)       |
| Goodwill amortisation                   | -             | -             | -             | -             | -             |
| <b>Operating EBIT</b>                   | <b>7,812</b>  | <b>10,185</b> | <b>12,932</b> | <b>16,064</b> | <b>19,385</b> |
| Net financing costs                     | 401           | 584           | 312           | 457           | 695           |
| Associates                              | 428           | 696           | 3,344         | 1,897         | 1,908         |
| Recurring non operating income          | 5,149         | 3,644         | (971)         | (510)         | (360)         |
| Non recurring items                     | -             | -             | -             | -             | -             |
| <b>Profit before tax</b>                | <b>13,790</b> | <b>15,109</b> | <b>15,617</b> | <b>17,908</b> | <b>21,629</b> |
| Tax                                     | (3,449)       | (2,666)       | (3,575)       | (3,940)       | (4,758)       |
| <b>Profit after tax</b>                 | <b>10,341</b> | <b>12,443</b> | <b>12,042</b> | <b>13,968</b> | <b>16,871</b> |
| Minority interests                      | -             | (2)           | 26            | -             | -             |
| Preferred dividends                     | -             | -             | -             | -             | -             |
| Other items                             | -             | 518           | 100           | -             | -             |
| <b>Reported net profit</b>              | <b>10,341</b> | <b>12,959</b> | <b>12,169</b> | <b>13,968</b> | <b>16,871</b> |
| Non recurring items & goodwill (net)    | -             | -             | -             | -             | -             |
| <b>Recurring net profit</b>             | <b>10,341</b> | <b>12,959</b> | <b>12,169</b> | <b>13,968</b> | <b>16,871</b> |
| <b>Per share (TWD)</b>                  |               |               |               |               |               |
| Recurring EPS *                         | 4.29          | 5.31          | 4.60          | 5.29          | 6.38          |
| Reported EPS                            | 4.29          | 5.31          | 4.60          | 5.29          | 6.38          |
| DPS                                     | 2.23          | 2.20          | 3.28          | 3.08          | 2.60          |
| <b>Growth</b>                           |               |               |               |               |               |
| Revenue (%)                             | 16.0          | 25.2          | 23.8          | 13.9          | 16.4          |
| Operating EBITDA (%)                    | (2.6)         | 27.2          | 27.0          | 22.7          | 19.6          |
| Operating EBIT (%)                      | 2.1           | 30.4          | 27.0          | 24.2          | 20.7          |
| Recurring EPS (%)                       | 20.2          | 23.6          | (13.2)        | 14.8          | 20.8          |
| Reported EPS (%)                        | 20.2          | 23.6          | (13.2)        | 14.8          | 20.8          |
| <b>Operating performance</b>            |               |               |               |               |               |
| Gross margin inc depreciation (%)       | 10.5          | 10.3          | 10.4          | 10.4          | 10.3          |
| Operating EBITDA margin (%)             | 2.4           | 2.5           | 2.5           | 2.7           | 2.8           |
| Operating EBIT margin (%)               | 2.1           | 2.2           | 2.3           | 2.5           | 2.6           |
| Net margin (%)                          | 2.8           | 2.8           | 2.1           | 2.1           | 2.2           |
| Effective tax rate (%)                  | 25.0          | 17.6          | 22.9          | 22.0          | 22.0          |
| Dividend payout on recurring profit (%) | 51.9          | 41.4          | 71.2          | 58.2          | 40.7          |
| Interest cover (x)                      | na            | na            | na            | na            | na            |
| Inventory days                          | 30.5          | 26.4          | 26.9          | 27.9          | 27.6          |
| Debtor days                             | 69.5          | 68.3          | 68.6          | 67.6          | 66.9          |
| Creditor days                           | 77.5          | 65.0          | 58.8          | 56.2          | 55.7          |
| Operating ROIC (%)                      | 53.6          | 59.4          | 41.8          | 45.9          | 49.8          |
| Operating ROIC - WACC (%)               | 44.6          | 50.3          | 32.7          | 36.8          | 40.7          |
| ROIC (%)                                | 30.5          | 25.9          | 17.8          | 19.7          | 22.7          |
| ROIC - WACC (%)                         | 21.5          | 16.8          | 8.7           | 10.6          | 13.6          |
| ROE (%)                                 | 14.5          | 16.9          | 15.4          | 16.7          | 18.4          |
| ROA (%)                                 | 5.6           | 5.8           | 4.8           | 5.1           | 5.6           |

Revenue growth is driven by strong emerging market demand and market share gain

Dividend yield of 5.8%

\* Pre exceptional, pre-goodwill and fully diluted

Sources: Acer Inc; BNP Paribas estimates

| <b>Cash Flow (TWD m)</b>        |               |                 |                |               |               |
|---------------------------------|---------------|-----------------|----------------|---------------|---------------|
| <b>Year Ending December</b>     | <b>2006A</b>  | <b>2007A</b>    | <b>2008E</b>   | <b>2009E</b>  | <b>2010E</b>  |
| Recurring net profit            | 10,341        | 12,959          | 12,169         | 13,968        | 16,871        |
| Depreciation                    | 1,092         | 1,142           | 1,454          | 1,589         | 1,724         |
| Associates & minorities         | (428)         | (694)           | (3,370)        | (1,897)       | (1,908)       |
| Other non-cash items            | -             | -               | -              | -             | -             |
| <b>Recurring cash flow</b>      | <b>11,005</b> | <b>13,408</b>   | <b>10,252</b>  | <b>13,661</b> | <b>16,687</b> |
| Change in working capital       | 5,587         | (12,823)        | (3,426)        | (2,265)       | (3,018)       |
| Capex - maintenance             | 731           | (911)           | (500)          | (450)         | (450)         |
| Capex - new investment          | 1,706         | (2,126)         | (1,167)        | (1,050)       | (1,050)       |
| <b>Free cash flow to equity</b> | <b>19,029</b> | <b>(2,453)</b>  | <b>5,159</b>   | <b>9,896</b>  | <b>12,168</b> |
| Net acquisitions & disposals    | 4,198         | 3,329           | 6,341          | 1,897         | 1,908         |
| Dividends paid                  | (5,365)       | (5,365)         | (8,660)        | (8,132)       | (6,872)       |
| Non recurring cash flows        | (2,192)       | (25,163)        | (2,232)        | (551)         | (551)         |
| <b>Net cash flow</b>            | <b>15,670</b> | <b>(29,651)</b> | <b>608</b>     | <b>3,110</b>  | <b>6,653</b>  |
| Equity finance                  | (2,035)       | (11,108)        | (8,633)        | (8,132)       | (6,872)       |
| Debt finance                    | 10,380        | 23,154          | 4,971          | 4,492         | 3,960         |
| <b>Movement in cash</b>         | <b>24,015</b> | <b>(17,605)</b> | <b>(3,055)</b> | <b>(530)</b>  | <b>3,741</b>  |

**Per share (TWD)**

|                               |      |        |      |      |      |
|-------------------------------|------|--------|------|------|------|
| Recurring cash flow per share | 4.57 | 5.49   | 3.88 | 5.17 | 6.31 |
| FCF to equity per share       | 7.90 | (1.00) | 1.95 | 3.74 | 4.60 |

**Balance Sheet (TWD m)**

| <b>Year Ending December</b>       | <b>2006A</b>    | <b>2007A</b>    | <b>2008E</b>    | <b>2009E</b>    | <b>2010E</b>    |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Working capital assets            | 102,610         | 150,574         | 164,058         | 186,975         | 217,709         |
| Working capital liabilities       | (102,313)       | (137,453)       | (147,512)       | (168,164)       | (195,880)       |
| <b>Net working capital</b>        | <b>297</b>      | <b>13,121</b>   | <b>16,546</b>   | <b>18,811</b>   | <b>21,829</b>   |
| Tangible fixed assets             | 6,191           | 8,636           | 9,401           | 9,863           | 10,190          |
| <b>Operating invested capital</b> | <b>6,488</b>    | <b>21,757</b>   | <b>25,947</b>   | <b>28,674</b>   | <b>32,019</b>   |
| Goodwill                          | -               | -               | -               | -               | -               |
| Other intangible assets           | -               | -               | -               | -               | -               |
| Investments                       | 13,836          | 11,203          | 8,206           | 8,206           | 8,206           |
| Other assets                      | 7,207           | 31,818          | 33,499          | 33,499          | 33,499          |
| <b>Invested capital</b>           | <b>27,530</b>   | <b>64,778</b>   | <b>67,652</b>   | <b>70,379</b>   | <b>73,724</b>   |
| Cash & equivalents                | (58,657)        | (41,053)        | (37,998)        | (37,468)        | (41,209)        |
| Short term debt                   | 7,658           | 5,389           | 10,010          | 8,008           | 6,406           |
| Long term debt *                  | 169             | 16,791          | 8,190           | 6,552           | 5,242           |
| <b>Net debt</b>                   | <b>(50,831)</b> | <b>(18,872)</b> | <b>(19,798)</b> | <b>(22,908)</b> | <b>(29,561)</b> |
| Deferred tax                      | -               | -               | -               | -               | -               |
| Other liabilities                 | 2,805           | 6,241           | 6,532           | 6,532           | 6,532           |
| Total equity                      | 75,556          | 77,409          | 80,917          | 86,755          | 96,754          |
| Minority interests                | -               | -               | -               | -               | -               |
| <b>Invested capital</b>           | <b>27,530</b>   | <b>64,778</b>   | <b>67,651</b>   | <b>70,379</b>   | <b>73,724</b>   |

\* Includes convertibles and preferred stock which is being treated as debt

**Per share (TWD)**

|                               |       |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|-------|
| Book value per share          | 31.38 | 31.70 | 30.62 | 32.83 | 36.61 |
| Tangible book value per share | 31.38 | 31.70 | 30.62 | 32.83 | 36.61 |

**Financial strength**

|                           |        |        |        |        |        |
|---------------------------|--------|--------|--------|--------|--------|
| Net debt/equity (%)       | (67.3) | (24.4) | (24.5) | (26.4) | (30.6) |
| Net debt/total assets (%) | (27.0) | (7.8)  | (7.8)  | (8.3)  | (9.5)  |
| Current ratio (x)         | 1.5    | 1.3    | 1.3    | 1.3    | 1.3    |
| CF interest cover (x)     | na     | na     | na     | na     | na     |

Consistent net cash position

| <b>Valuation</b>                   | <b>2006A</b> | <b>2007A</b> | <b>2008E</b> | <b>2009E</b> | <b>2010E</b> |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Recurring P/E (x) *                | 12.4         | 10.0         | 11.6         | 10.1         | 8.3          |
| Recurring P/E @ target price (x) * | 16.3         | 13.2         | 15.2         | 13.2         | 11.0         |
| Reported P/E (x)                   | 12.4         | 10.0         | 11.6         | 10.1         | 8.3          |
| Dividend yield (%)                 | 4.2          | 4.1          | 6.2          | 5.8          | 4.9          |
| P/CF (x)                           | 11.6         | 9.7          | 13.7         | 10.3         | 8.4          |
| P/FCF (x)                          | 6.7          | neg          | 27.2         | 14.2         | 11.6         |
| Price/book (x)                     | 1.7          | 1.7          | 1.7          | 1.6          | 1.5          |
| Price/tangible book (x)            | 1.7          | 1.7          | 1.7          | 1.6          | 1.5          |
| EV/EBITDA (x) **                   | 5.9          | 6.0          | 6.9          | 6.3          | 5.0          |
| EV/EBITDA @ target price (x) **    | 8.7          | 8.6          | 9.5          | 8.6          | 7.0          |
| EV/invested capital (x)            | 2.8          | 1.7          | 1.8          | 1.7          | 1.5          |

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Acer Inc; BNP Paribas estimates

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\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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