



COMPANY UPDATE  
**HTC Corp. (2498.TW)**

Buy

**3Q inline; redemption pressure shouldn't stop HTC's positive outlook**

**What's changed**

HTC Corp. reported Sep. sales and 3Q08 preliminary net earnings after Monday's market close. Despite some shipment postponements caused by typhoon, Sep. and 3Q sales came in at NT\$13.7bn (+8% mom, +30% yoy) and NT\$37.9bn (+9.4% qoq, +30% yoy), respectively, in line with mgmt guidance. Net earnings came in 4-5% less than street/GS estimates, likely from lower than expected Forex gains due to the weakening Euro; the company will provide a detailed 3Q breakdown, as well as 4Q guidance at its Oct. 30th analysts meeting. In addition, the company continues to expect 2008 sales to reach the high end of its guidance range (+20% to 30%).

**Implications**

We attribute recent share price weakness mainly to redemption pressure rather than due to fundamental reasons. We also believe it is misleading to tie recent woes at Apple and RIM directly to HTC's outlook, as HTC not only addresses more diversified end segments but also has a timelier/ broader product portfolio. Inevitably, near term de-rating has occurred amid the sharp index correction; we believe re-rating will soon begin as we head in to a potentially strong 4Q (GSE +30% qoq revenue growth). Additionally, we believe a long term re-rating process remains as HTC continues to innovate and scale up. We conservatively fine tune our 08E-10E earnings estimates by -4%/ +3%/ +9% to factor in margin trends from Android & ODM percentage; Despite potentially strong growth ahead from dual mobile platforms Windows Mobile and Google Android, we revise our 2009E revenue estimate up by only 5% to reflect macro concerns. We slightly lower our 12-m PE-based TP to NT620 (12X 2009E) from NT660 (16X 2008E). Maintain Buy.

**Valuation**

HTC currently trades at 10.5X/ 8X 08E/ 09E GAAP EPS, approximately a 40% discount to the global peer median.

**Key risks**

Intensified competition from global peers.

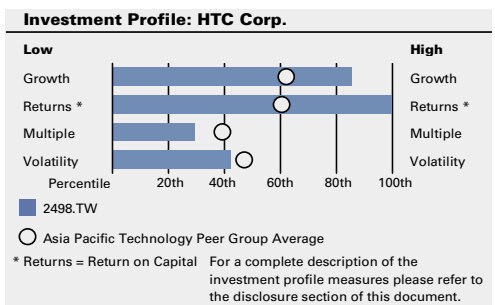
**INVESTMENT LIST MEMBERSHIP**

Asia Pacific Buy List

**Coverage View:** Neutral

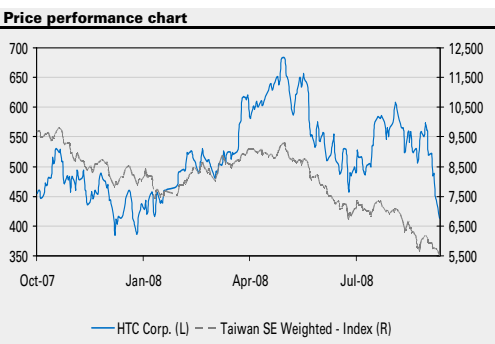
Taiwan:  
 Communications Technology

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Key data	Current
Price (NT\$)	413.50
12 month price target (NT\$)	620.00
Market cap (NT\$ mn / US\$ mn)	310,058.4 / 9,632.1
Foreign ownership (%)	50.7

	12/07	12/08E	12/09E	12/10E
<b>EPS (NT\$) New</b>	<b>39.20</b>	<b>39.42</b>	<b>51.68</b>	<b>67.25</b>
EPS revision (%)	0.0	(4.4)	3.0	9.4
EPS growth (%)	13.3	0.5	31.1	30.1
<b>EPS (dil) (NT\$) New</b>	<b>39.20</b>	<b>39.42</b>	<b>51.68</b>	<b>67.25</b>
P/E (X)	10.5	10.5	8.0	6.1
P/B (X)	5.4	6.4	4.3	3.1
EV/EBITDA (X)	6.8	8.2	5.8	3.9
Dividend yield (%)	3.8	6.3	7.9	10.6
ROE (%)	58.7	56.4	64.4	58.9



Share price performance (%)	3 month	6 month	12 month
Absolute	(19.8)	(20.6)	(9.7)
Rel. to Taiwan SE Weighted Index	5.3	24.0	57.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/06/2008 close.

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# HTC Corp.: 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
<b>Total revenue</b>	<b>118,580.0</b>	<b>154,429.0</b>	<b>194,207.6</b>	<b>238,772.6</b>	Cash & equivalents	55,069.3	50,348.2	72,108.2	102,430.4
Cost of goods sold	(78,337.2)	(101,617.9)	(127,275.5)	(153,359.3)	Accounts receivable	19,753.8	27,001.2	32,861.8	37,391.2
SG&A	(5,353.1)	(10,094.0)	(11,991.3)	(14,455.5)	Inventory	6,119.4	7,846.4	8,446.5	9,030.8
R&D	(3,866.1)	(5,306.7)	(6,456.8)	(7,783.7)	Other current assets	2,230.3	1,585.5	1,585.5	1,585.5
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>83,172.7</b>	<b>86,781.3</b>	<b>115,002.1</b>	<b>150,438.0</b>
ES0 expense	--	(6,309.8)	(8,319.1)	(10,802.3)	Net PP&E	3,715.9	4,128.0	4,866.1	5,733.8
<b>EBITDA</b>	<b>31,579.4</b>	<b>31,705.5</b>	<b>40,820.8</b>	<b>53,082.2</b>	Net intangibles	0.0	0.0	0.0	0.0
Depreciation & amortization	(556.0)	(604.9)	(655.9)	(710.4)	Total investments	2,899.1	2,457.5	2,274.5	2,135.8
<b>EBIT</b>	<b>31,023.4</b>	<b>31,100.6</b>	<b>40,164.9</b>	<b>52,371.8</b>	Other long-term assets	656.8	762.5	852.2	937.3
Interest income	816.1	1,379.5	1,868.3	3,280.0	<b>Total assets</b>	<b>90,444.5</b>	<b>94,129.3</b>	<b>122,994.9</b>	<b>159,244.9</b>
Interest expense	(0.2)	(0.1)	0.0	0.0	Accounts payable	22,020.1	30,124.8	36,325.0	44,314.9
Income/(loss) from uncons. subs.	104.0	(408.1)	(183.0)	(138.7)	Short-term debt	0.0	0.0	0.0	0.0
Others	208.0	518.9	1,315.2	1,319.1	Other current liabilities	12,348.0	15,201.8	15,201.8	15,201.8
<b>Pretax profits</b>	<b>32,151.3</b>	<b>32,590.9</b>	<b>43,165.4</b>	<b>56,832.2</b>	<b>Total current liabilities</b>	<b>34,368.1</b>	<b>45,326.5</b>	<b>51,526.8</b>	<b>59,516.7</b>
Income tax	(3,212.4)	(3,034.7)	(4,416.5)	(6,404.6)	Long-term debt	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	0.6	0.6	0.6	0.6
<b>Net income pre-preferred dividends</b>	<b>28,938.9</b>	<b>29,556.2</b>	<b>38,748.9</b>	<b>50,427.6</b>	Total long-term liabilities	0.6	0.6	0.6	0.6
Preferred dividends	0.0	0.0	0.0	0.0	<b>Total liabilities</b>	<b>34,368.8</b>	<b>45,327.2</b>	<b>51,527.4</b>	<b>59,517.3</b>
<b>Net income (pre-exceptionals)</b>	<b>28,938.9</b>	<b>29,556.2</b>	<b>38,748.9</b>	<b>50,427.6</b>	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	<b>Total common equity</b>	<b>56,075.8</b>	<b>48,802.1</b>	<b>71,467.5</b>	<b>99,727.6</b>
<b>Net income</b>	<b>28,938.9</b>	<b>29,556.2</b>	<b>38,748.9</b>	<b>50,427.6</b>	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-exception) (NT\$)	39.20	39.42	51.68	67.25	<b>Total liabilities &amp; equity</b>	<b>90,444.5</b>	<b>94,129.3</b>	<b>122,994.9</b>	<b>159,244.9</b>
EPS (basic, post-exception) (NT\$)	39.20	39.42	51.68	67.25	<b>BVPS (NT\$)</b>	<b>75.97</b>	<b>65.08</b>	<b>95.31</b>	<b>133.00</b>
EPS (diluted, post-exception) (NT\$)	39.20	39.42	51.68	67.25					
<b>EPS excl. ESO expense (basic) (NT\$)</b>	<b>39.20</b>	<b>46.94</b>	<b>61.64</b>	<b>80.03</b>					
<b>EPS excl. ESO expense (dil.) (NT\$)</b>	<b>39.20</b>	<b>46.94</b>	<b>61.64</b>	<b>80.03</b>					
DPS (NT\$)	15.83	25.99	32.54	43.97					
Dividend payout ratio (%)	40.4	65.9	63.0	65.4					
Free cash flow yield (%)	14.7	5.2	15.5	21.4					
<b>Growth &amp; margins (%)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	<b>Ratios</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
Sales growth	13.1	30.2	25.8	22.9	ROE (%)	58.7	56.4	64.4	58.9
EBITDA growth	16.2	0.4	28.7	30.0	ROA (%)	37.0	32.0	35.7	35.7
EBIT growth	16.8	0.2	29.1	30.4	ROACE (%)	614.4	NM	NM	NM
Net income growth	14.6	2.1	31.1	30.1	Inventory days	25.9	25.1	23.4	20.8
EPS growth	13.3	0.5	31.1	30.1	Receivables days	61.1	55.3	56.3	53.7
Gross margin	33.9	34.2	34.5	35.8	Payable days	90.5	93.6	95.3	96.0
EBITDA margin	26.6	20.5	21.0	22.2	Net debt/equity (%)	(98.2)	(103.2)	(100.9)	(102.7)
EBIT margin	26.2	20.1	20.7	21.9	Interest cover - EBIT (X)	NM	NM	NM	NM
					<b>Valuation</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>
<b>Cash flow statement (NT\$ mn)</b>	<b>12/07</b>	<b>12/08E</b>	<b>12/09E</b>	<b>12/10E</b>	P/E (analyst) (X)	10.5	10.5	8.0	6.1
Net income pre-preferred dividends	28,938.9	29,556.2	38,748.9	50,427.6	P/B (X)	5.4	6.4	4.3	3.1
D&A add-back	556.0	604.9	655.9	710.4	EV/EBITDA (X)	6.8	8.2	5.8	3.9
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	3.8	6.3	7.9	10.6
Net (inc)/dec working capital	4,242.5	(1,019.1)	(216.3)	2,889.8					
Other operating cash flow	6,043.8	(13,248.7)	8,457.8	10,927.4					
<b>Cash flow from operations</b>	<b>39,781.2</b>	<b>15,893.3</b>	<b>47,646.4</b>	<b>64,955.3</b>					
Capital expenditures	(1,195.9)	(1,097.8)	(1,365.6)	(1,549.6)					
Acquisitions	(2,005.7)	(45.2)	(118.1)	(113.7)					
Divestitures	0.0	49.3	0.0	0.0					
Others	(23.4)	(34.1)	0.0	0.0					
<b>Cash flow from investments</b>	<b>(3,225.1)</b>	<b>(1,127.7)</b>	<b>(1,483.7)</b>	<b>(1,663.2)</b>					
Dividends paid (common & pref)	(11,685.5)	(19,486.6)	(24,402.7)	(32,969.8)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	(1,747.8)	0.0	0.0	0.0					
Other financing cash flows	(2,451.0)	0.0	0.0	0.0					
<b>Cash flow from financing</b>	<b>(15,884.2)</b>	<b>(19,486.6)</b>	<b>(24,402.7)</b>	<b>(32,969.8)</b>					
<b>Total cash flow</b>	<b>20,671.9</b>	<b>(4,721.0)</b>	<b>21,760.0</b>	<b>30,322.2</b>					

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

## Analyst Contributors

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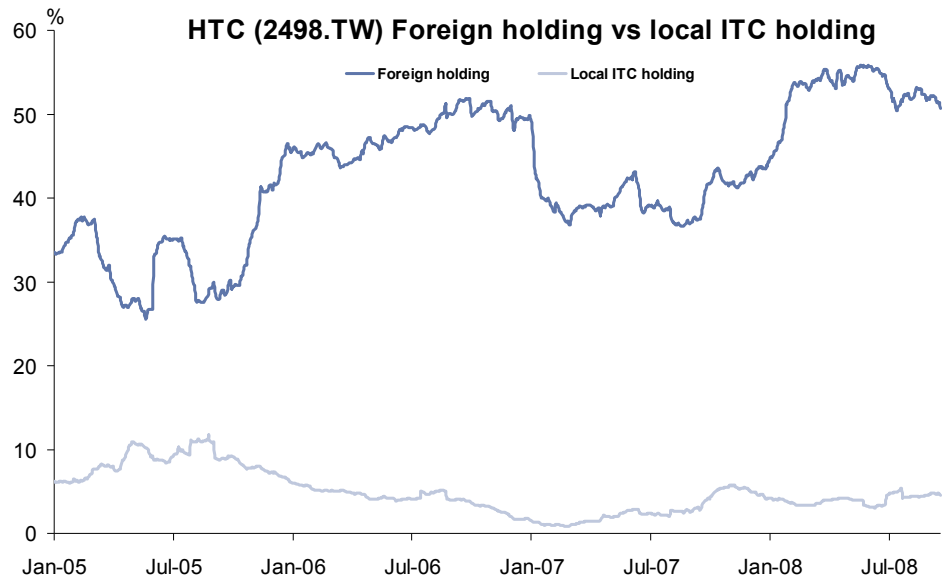
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## We believe the recent sell off is not due to HTC's fundamentals and creates a good entry point for investors

HTC share price dropped 15% over four trading days (09/30-10/03) at least partially due we believe to selling pressure from some local financial institutions potentially facing liquidity issues. We note that foreign holdings and local ITC holding have been quite stable recently (please refer to Exhibit 1). We do not think the share price decline is justified and remain confident in HTC's fundamentals as the smartphone is still the spotlight in the handset industry where HTC has a dominant position, in our view. We believe that institutions with liquidity problems may sell stocks with good liquidity, such as HTC or Mediatek, for internal reasons rather than due to concerns over the fundamentals of the stock. Given that we believe HTC will continue to outperform our group through the end of the year, driven by strong near term revenue momentum and solid product cycle opportunities, we expect this type of selling could create a good entry point for investors to own the stock.

**Exhibit 1: Foreign holding and local ITC holding have been quite stable recently.**



Source: TEJ.

## RIM and Apple's recent woes do not stop expectations of a bright outlook for HTC

We believe it is misleading to relate the recent share price correction in RIM and Apple to HTC from following reasons:

(1) Different target markets: RIM focuses on the corporate segment and particularly financial companies, while Apple focuses on large consumer segments. We are not surprised that the US market has priced in a potential demand correction from the corporate (particularly the financial sector) and consumer segments; along with a recent de-rating of RIM and Apple stock prices. Yet we want to highlight that HTC has been more

focused on niche segments like SME and Window professional users, rather than corporate or retail consumer groups.

More importantly, HTC has only recently made an entry into the consumer segment with its Diamond (Window Mobile platform) and G1 (Google Android platform) products. This has helped HTC to grow its consumer unit even during a time of weak macro conditions to become a dominant supplier of Window Mobile and Google Android smart phone devices into the consumer market.

(2) Flexibility and speed on new product rollouts: We believe HTC distinguished itself compared to RIM and Apple, with its successful Diamond rollout in June and expectations of 4-5 Diamond extensions to be delivered in 2H08, together with the world's first Android commercial rollout in 4Q08. As a result, we expect HTC to continue to deliver monthly momentum from Aug to Nov, particularly with the introduction of the world's first Android G1 mobile phone.

## **Expectations of long-term share price re-rating remain unchanged despite near term volatility**

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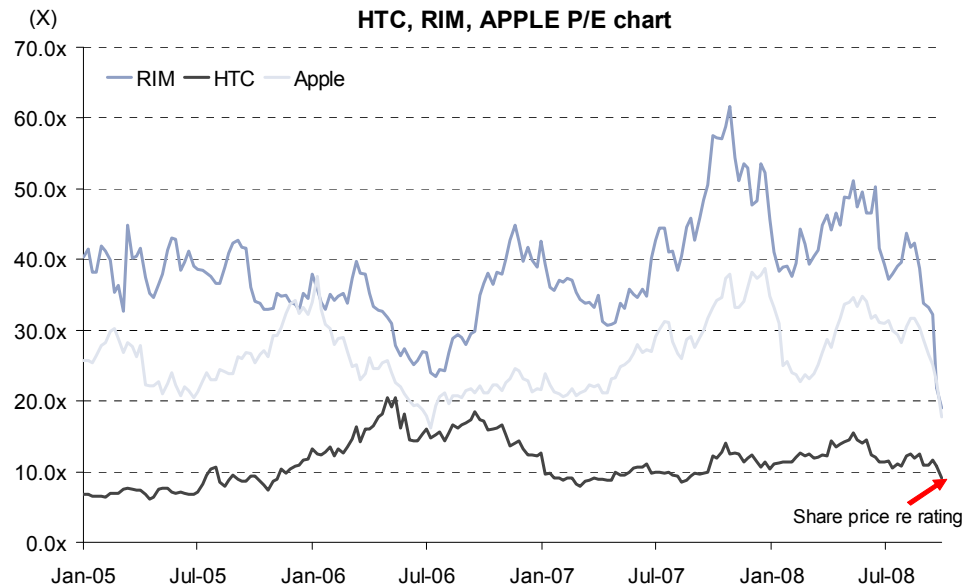
Despite what we perceive as a temporary share price de-rating driven by redemption pressure, high absolute stock price and YTD share price out-performance during a time of capital market volatility, we maintain our expectation of a longer term re-rating along a trend of converging P/E multiples among global tier 1 (exhibit 2), even given Apple and RIM's recent share price weakness because:

(1) As it trades on the Taiwan exchange, we believe HTC has traded at an emerging market discount to peers like Apple and RIMM that trade in more mature markets. Given its inherent trading discount, we do not expect the same degree of impact to HTC from the multiple compression of Apple or RIMM

(2) Understanding that temporary de-rating may be inevitable given current sentiment and market environment; we believe expected strong 4Q momentum (GSE 30% qoq revenue growth) may likely result in a re-rating of HTC as soon as investors gain reassurance that HTC's growth is not being impacted by the current weak macro conditions.

(3) Longer term, we are confident of seeing growth momentum from 2009 onward for HTC based on the two mobile platforms, Window Mobile and Google Android; in particular, we were encouraged to see the initial successful rollout of G1, which has given us a level of comfort that HTC now has dual growth engines to leverage for maximizing its return on the fast growing smart phone industry.

**Exhibit 2: We expect a converging P/E multiple trend among global tier-1 handset companies.**



Source: FactSet; Goldman Sachs Research estimates.

## Still Buy rated after rolling our TP to 2009E with revised multiple

Having said that we still expect a long-term re-rating of HTC's, we note that the weakening capital market has resulted in a de-rating of almost every stock with what appears little consideration of fundamentals.

To reflect the recent multiple compression across the market, we roll over our 12-m target price from 16X 2008E GAAP EPS to 12X 2009E GAAP EPS. This new multiple is slightly higher than the 11.4X average target P/E of other hardware companies under our coverage. While we have lowered our target multiple, we reiterate our expectation of strong growth momentum for HTC, and note its dominant smart phone industry position and trading discount to global peers. (Exhibit 3, 4)

For our earning adjustments, (1) we assume the company will achieve 30% QoQ sales growth in 4Q08, which is at high end of the company's annual sales guidance range (because we believe G1 will be very successful), but we revise down our gross margin expectations to reflect a higher ODM and G1 unit sales contribution (2) as we are confident of a successful Android mobile platform launch and HTC's leading position versus peers for the expected Android rollout in 2009, we do see potential upside risk on unit/sales for 2009 on top of primarily window mobile platforms; however, we tune our sales estimate for 2009 by only 5% to factor in expectations of continued macro weakness (3) we expect HTC's gross margin to bottom in 4Q08, when more G1 and ODM units will likely be sold, followed by a trend higher from 4Q08 to 4Q09 because no new ODM model will be released in 2009. We further expect introduction of the 3 new Android models will have a positive impact on gross margin because they will likely have a similar gross margin as Windows Mobile non ODM product.

**Exhibit 3: We roll over our TP to 12X 2009E GAAP EPS, which is slightly higher than the average target P/E of other hardware companies under our coverage**

Ticker	Company	Rating	Price 6-Oct	Target price	EPS		EPS growth		P/E (X)		Target P/E (X)	
					2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E
<b>Notebooks</b>												
2324.TW	Compal Electronics	Neutral	24.3	32.0	3.6	3.6	0%	1%	6.8	6.7	9.0	8.9
3231.TW	Wistron	Neutral	39.0	58.0	4.8	5.2	5%	8%	8.1	7.5	12.0	11.2
2382.TW	Quanta Computer	Buy	37.6	58.0	5.5	5.8	6%	6%	6.8	6.4	10.5	9.9
<b>EMS</b>												
2317.TW	Hon Hai Precision	Buy	99.0	167.0	10.0	11.9	-8%	19%	9.9	8.3	16.7	14.0
<b>Branded PC</b>												
2353.TW	Acer	Buy	50.2	80.0	5.1	5.5	-6%	9%	9.9	9.1	15.8	14.4
<b>Communications technology</b>												
3367.TW	Inventec Appliances	Neutral	34.1	51.0	5.2	5.1	-18%	-4%	6.5	6.8	9.7	10.1
Average									8.0	7.5	12.3	11.4

Key risk for Compal 12-m P/E based TP: Greater component shortage and weaker NB demand than we expect.

Key risk for Wistron 12-m P/E based TP: Market share loss in '09 NB ODM order allocation.

Key risk for Quanta 12-m P/E based TP: Weaker than expected peak season sell-thru demand and greater than expected ASP erosion.

Key risk for Hon Hai 12-m P/E based TP: Weaker than expected demand.

Key risk for Acer 12-m SOTP-based TP: 2H2008 potential slow demand.

Key risk for Inventec 12-m P/E based TP: Weaker-than-expected end-market demand.

For important disclosures, please go to <http://www.gs.com/research/hedge.html>.

Source: FactSet; Goldman Sachs Research estimates.

**Exhibit 4: HTC's valuation is at a discount to its global peers**

Ticker	Company	Rating	Ccy	Price Oct 6, 08	Mkt cap USD mn	EPS (GAAP)			EPS growth		P/E (X)		ROE (GAAP)	
						2007	2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E
<b>Global handset makers</b>														
2498.TW	HTC Corp.	Buy	NTD	413.5	9,779	31.50	39.42	51.68	25%	31%	10.5x	8.0x	58.0%	62.1%
NOK1V.HE	Nokia	Neutral	EUR	13.0	72,907	1.45	1.52	1.34	5%	-12%	8.6x	9.7x	30.9%	31.5%
MOT	Motorola, Inc.	NR	USD	6.7	15,223	0.24	0.08	0.52	-65%	516%	80.0x	13.0x	1.3%	8.1%
RIMM	Research In Motion Ltd.	Buy	USD	61.0	34,465	1.11	2.26	3.60	104%	59%	27.0x	16.9x	40.3%	41.4%
AAPL	Apple Inc.	Buy	USD	97.1	85,992	3.93	5.18	5.80	32%	12%	18.7x	16.7x	26.6%	22.7%
<b>Median</b>									<b>25%</b>	<b>31%</b>	<b>18.7x</b>	<b>13.0x</b>	<b>30.9%</b>	<b>31.5%</b>

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Source: FactSet; Goldman Sachs Research estimates.

**Exhibit 5: We slightly tune our sales estimate for 2009 up by 5% to factor in Android product contribution and macro weakness.**

**High Tech Computer (2498.TW)**

<b>P&amp;L (pre-bonus, NT\$m)</b>	<b>2008E New</b>	<b>2008E Old</b>	<b>Diff.</b>	<b>2009E New</b>	<b>2009E Old</b>	<b>Diff.</b>	<b>2010E New</b>	<b>2010E Old</b>	<b>Diff.</b>
Revenues	154,429	155,094	0%	194,208	185,396	5%	238,773	227,519	5%
Gross profits	52,811	54,235	-3%	66,932	65,709	2%	85,413	79,072	8%
Operating profits	37,410	38,802	-4%	48,484	46,882	3%	63,174	57,299	10%
Non-operating income	1,490	1,832	-19%	3,001	2,986	1%	4,460	4,345	3%
Pretax earnings	38,901	40,634	-4%	51,484	49,868	3%	67,635	61,644	10%
Net earnings	35,194	36,879	-5%	46,217	44,893	3%	60,013	54,873	9%
EPS (NT\$)	46.94	49.18	-5%	61.64	59.87	3%	80.03	73.18	9%
<b>Ratio analysis</b>									
Gross margin (%)	34.2%	35.0%		34.5%	35.4%		35.8%	34.8%	
EBIT margin (%)	24.2%	25.0%		25.0%	25.3%		26.5%	25.2%	
Tax expense (as % of EBT)	9.5%	9.2%		10.2%	10.0%		11.3%	11.0%	
Net margin (%)	22.8%	23.8%		23.8%	24.2%		25.1%	24.1%	
<b>Return analysis</b>									
ROA (% , annualized)	38.1%	39.8%		42.6%	41.5%		42.5%	40.2%	
ROE (% , annualized)	67.1%	69.2%		76.9%	74.1%		70.1%	66.4%	

**High Tech Computer (2498.TW)**

<b>P&amp;L (post-bonus, NT\$m)</b>	<b>2008E New</b>	<b>2008E Old</b>	<b>Diff.</b>	<b>2009E New</b>	<b>2009E Old</b>	<b>Diff.</b>	<b>2010E New</b>	<b>2010E Old</b>	<b>Diff.</b>
Revenues	154,429	155,094	0%	194,208	185,396	5%	238,773	227,519	5%
Gross profits	52,141	53,531	-3%	66,034	64,837	2%	84,247	78,005	8%
Operating profits	31,101	32,181	-3%	40,165	38,801	4%	52,372	47,422	10%
Non-operating income	1,490	1,832	-19%	3,001	2,986	1%	4,460	4,345	3%
Pretax earnings	32,591	34,013	-4%	43,165	41,787	3%	56,832	51,767	10%
Net earnings	29,556	30,928	-4%	38,749	37,618	3%	50,428	46,081	9%
EPS (NT\$)	39.42	41.25	-4%	51.68	50.17	3%	67.25	61.45	9%
<b>Ratio analysis</b>									
Gross margin (%)	33.8%	34.5%		34.0%	35.0%		35.3%	34.3%	
EBIT margin (%)	20.1%	20.7%		20.7%	20.9%		21.9%	20.8%	
Tax expense (as % of EBT)	9.3%	9.1%		10.2%	10.0%		11.3%	11.0%	
Net margin (%)	19.1%	19.9%		20.0%	20.3%		21.1%	20.3%	
<b>Return analysis</b>									
ROA (% , annualized)	32.0%	33.4%		35.7%	34.8%		35.7%	33.8%	
ROE (% , annualized)	56.4%	58.0%		64.4%	62.1%		58.9%	55.8%	

Source: Goldman Sachs Research estimates.

**Exhibit 6: HTC quarterly profit model (parent; NT\$mnn)**

Non-GAAP basis

Summary P&L (non-GAAP)	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008E	4Q2008E	1Q2009E	2Q2009E	2007	2008E	2009E	2010E
<b>Net sales</b>	<b>29,108</b>	<b>39,010</b>	<b>32,703</b>	<b>34,620</b>	<b>37,859</b>	<b>49,247</b>	<b>40,381</b>	<b>42,295</b>	<b>118,580</b>	<b>154,429</b>	<b>194,208</b>	<b>238,773</b>
Cost of goods sold (COGS)	(19,218)	(25,507)	(20,840)	(22,514)	(24,799)	(33,464)	(27,364)	(28,257)	(78,337)	(101,618)	(127,276)	(153,359)
<b>Gross profits</b>	<b>9,890</b>	<b>13,503</b>	<b>11,863</b>	<b>12,107</b>	<b>13,059</b>	<b>15,782</b>	<b>13,017</b>	<b>14,038</b>	<b>40,243</b>	<b>52,811</b>	<b>66,932</b>	<b>85,413</b>
Operating expenses	(2,459)	(3,058)	(2,915)	(3,802)	(3,977)	(4,707)	(4,038)	(4,230)	(9,219)	(15,401)	(18,448)	(22,239)
SG&A	(1,459)	(1,837)	(1,896)	(2,490)	(2,614)	(3,094)	(2,625)	(2,749)	(5,353)	(10,094)	(11,991)	(14,455)
R&D	(1,000)	(1,221)	(1,019)	(1,312)	(1,363)	(1,613)	(1,413)	(1,480)	(3,866)	(5,307)	(6,457)	(7,784)
<b>Operating profits</b>	<b>7,431</b>	<b>10,445</b>	<b>8,948</b>	<b>8,305</b>	<b>9,083</b>	<b>11,075</b>	<b>8,979</b>	<b>9,809</b>	<b>31,023</b>	<b>37,410</b>	<b>48,484</b>	<b>63,174</b>
<b>Non-operating income/(losses)</b>	<b>597</b>	<b>423</b>	<b>199</b>	<b>380</b>	<b>270</b>	<b>641</b>	<b>631</b>	<b>724</b>	<b>1,128</b>	<b>1,490</b>	<b>3,001</b>	<b>4,460</b>
<b>Earnings before tax (EBT)</b>	<b>8,028</b>	<b>10,869</b>	<b>9,147</b>	<b>8,685</b>	<b>9,352</b>	<b>11,716</b>	<b>9,610</b>	<b>10,533</b>	<b>32,151</b>	<b>38,901</b>	<b>51,484</b>	<b>67,635</b>
Income tax credit/(expense)	(596)	(877)	(849)	(880)	(938)	(1,040)	(981)	(1,080)	(3,212)	(3,706)	(5,267)	(7,622)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Earnings after tax (EAT)</b>	<b>7,432</b>	<b>9,992</b>	<b>8,298</b>	<b>7,805</b>	<b>8,414</b>	<b>10,676</b>	<b>8,629</b>	<b>9,452</b>	<b>28,939</b>	<b>35,194</b>	<b>46,217</b>	<b>60,013</b>
<b>EPS (NT\$)</b>	<b>10.07</b>	<b>13.54</b>	<b>11.07</b>	<b>10.41</b>	<b>11.22</b>	<b>14.24</b>	<b>11.51</b>	<b>12.61</b>	<b>39.20</b>	<b>46.94</b>	<b>61.64</b>	<b>80.03</b>
<b>EPS (fully diluted, NT\$)</b>	<b>10.07</b>	<b>13.54</b>	<b>11.07</b>	<b>10.41</b>	<b>11.22</b>	<b>14.24</b>	<b>11.51</b>	<b>12.61</b>	<b>39.20</b>	<b>46.94</b>	<b>61.64</b>	<b>80.03</b>
<b>Ratio analysis and assumptions</b>												
<b>As % of sales</b>												
Gross margin	34.0%	34.6%	36.3%	35.0%	34.5%	32.0%	32.2%	33.2%	33.9%	34.2%	34.5%	35.8%
Operating expense	-8.4%	-7.8%	-8.9%	-11.0%	-10.5%	-9.6%	-10.0%	-10.0%	-7.8%	-10.0%	-9.5%	-9.3%
Operating margin	25.5%	26.8%	27.4%	24.0%	24.0%	22.5%	22.2%	23.2%	26.2%	24.2%	25.0%	26.5%
Pretax margin	27.6%	27.9%	28.0%	25.1%	24.7%	23.8%	23.8%	24.9%	27.1%	25.2%	26.5%	28.3%
Tax rate (as % of EBT)	7.4%	8.1%	9.3%	10.1%	10.0%	8.9%	10.2%	10.3%	10.0%	9.5%	10.2%	11.3%
Net margin	25.5%	25.6%	25.4%	22.5%	22.2%	21.7%	21.4%	22.3%	24.4%	22.8%	23.8%	25.1%
<b>Qoq growth (%)</b>												
Sales	8.4%	34.0%	-16.2%	5.9%	9.4%	30.1%	-18.0%	4.7%				
Gross profits	9.2%	36.5%	-12.1%	2.1%	7.9%	20.9%	-17.5%	7.8%				
Operating profits	5.7%	40.6%	-14.3%	-7.2%	9.4%	21.9%	-18.9%	9.2%				
Non-operating profits	186.8%	-29.1%	-53.0%	91.3%	-29.1%	137.5%	-1.5%	14.7%				
Pre-tax profits	10.9%	35.4%	-15.8%	-5.0%	7.7%	25.3%	-18.0%	9.6%				
Net profits	24.4%	34.4%	-17.0%	-5.9%	7.8%	26.9%	-19.2%	9.5%				
EPS (weighted averaged)	24.4%	34.4%	-18.2%	-5.9%	7.8%	26.9%	-19.2%	9.5%				
<b>Yoy growth (%)</b>												
Sales	10.4%	37.1%	38.6%	28.9%	30.1%	26.2%	23.5%	22.2%	13.1%	30.2%	25.8%	22.9%
Gross profits	11.7%	40.9%	52.2%	33.7%	32.0%	16.9%	9.7%	16.0%	18.8%	31.2%	26.7%	27.6%
Operating profits	8.1%	35.5%	46.2%	18.2%	22.2%	6.0%	0.3%	18.1%	16.8%	20.6%	29.6%	30.3%
Non-operating profits	229.6%	40.5%	NM	82.7%	-54.8%	51.4%	217.3%	90.2%	177.9%	32.1%	101.3%	48.7%
Pretax profits	13.8%	35.7%	52.0%	20.0%	16.5%	7.8%	5.1%	21.3%	19.3%	21.0%	32.3%	31.4%
Net profits	10.8%	34.9%	49.8%	30.6%	13.2%	6.9%	4.0%	21.1%	14.6%	21.6%	31.3%	29.9%
EPS	9.5%	33.2%	47.5%	28.6%	11.5%	5.2%	4.0%	21.1%	13.2%	19.7%	31.3%	29.9%
<b>Dividend policies</b>												
Cash dividends (NT\$ per share)									15.8	26.0	32.5	44.0
Payout ratio (%)									46.3%	67.3%	69.3%	71.3%

Source: Company reports, Goldman Sachs Research estimates.

**Exhibit 7: HTC quarterly profit model (parent; NT\$mn)**

GAAP basis

Summary P&L (GAAP)	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008E	4Q2008E	1Q2009E	2Q2009E	2007	2008E	2009E	2010E
<b>Net sales</b>	<b>29,108</b>	<b>39,010</b>	<b>32,703</b>	<b>34,620</b>	<b>37,859</b>	<b>49,247</b>	<b>40,381</b>	<b>42,295</b>	<b>118,580</b>	<b>154,429</b>	<b>194,208</b>	<b>238,773</b>
Cost of goods sold (COGS)	(19,711)	(26,169)	(21,001)	(22,653)	(24,962)	(33,672)	(27,532)	(28,441)	(80,256)	(102,288)	(128,174)	(154,526)
<b>Gross profits</b>	<b>9,397</b>	<b>12,841</b>	<b>11,702</b>	<b>11,968</b>	<b>12,897</b>	<b>15,575</b>	<b>12,849</b>	<b>13,855</b>	<b>38,324</b>	<b>52,141</b>	<b>66,034</b>	<b>84,247</b>
Operating expenses	(3,587)	(4,574)	(4,246)	(5,053)	(5,320)	(6,422)	(5,424)	(5,747)	(13,610)	(21,040)	(25,869)	(31,875)
SG&A	(1,612)	(2,042)	(2,075)	(2,657)	(2,795)	(3,325)	(2,811)	(2,953)	(5,948)	(10,851)	(12,990)	(15,752)
R&D	(1,975)	(2,531)	(2,171)	(2,396)	(2,525)	(3,097)	(2,612)	(2,794)	(7,662)	(10,189)	(12,879)	(16,123)
<b>Operating profits</b>	<b>5,810</b>	<b>8,267</b>	<b>7,456</b>	<b>6,915</b>	<b>7,577</b>	<b>9,153</b>	<b>7,426</b>	<b>8,107</b>	<b>24,715</b>	<b>31,101</b>	<b>40,165</b>	<b>52,372</b>
<b>Non-operating income/(losses)</b>	<b>597</b>	<b>423</b>	<b>199</b>	<b>380</b>	<b>270</b>	<b>641</b>	<b>631</b>	<b>724</b>	<b>1,128</b>	<b>1,490</b>	<b>3,001</b>	<b>4,460</b>
<b>Earnings before tax (EBT)</b>	<b>6,408</b>	<b>8,690</b>	<b>7,655</b>	<b>7,295</b>	<b>7,846</b>	<b>9,794</b>	<b>8,057</b>	<b>8,831</b>	<b>25,843</b>	<b>32,591</b>	<b>43,165</b>	<b>56,832</b>
Income tax credit/(expense)	(476)	(701)	(710)	(680)	(775)	(869)	(822)	(906)	(2,593)	(3,035)	(4,416)	(6,405)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-
<b>Earnings after tax (EAT)</b>	<b>5,932</b>	<b>7,989</b>	<b>6,945</b>	<b>6,615</b>	<b>7,071</b>	<b>8,925</b>	<b>7,235</b>	<b>7,925</b>	<b>23,249</b>	<b>29,556</b>	<b>38,749</b>	<b>50,428</b>
<b>EPS (GAAP, NT\$)</b>	<b>8.04</b>	<b>10.82</b>	<b>9.26</b>	<b>8.82</b>	<b>9.43</b>	<b>11.90</b>	<b>9.65</b>	<b>10.57</b>	<b>31.50</b>	<b>39.42</b>	<b>51.68</b>	<b>67.25</b>
<b>EPS (GAAP, fully diluted, NT\$)</b>	<b>8.04</b>	<b>10.82</b>	<b>9.26</b>	<b>8.82</b>	<b>9.43</b>	<b>11.90</b>	<b>9.65</b>	<b>10.57</b>	<b>31.50</b>	<b>39.42</b>	<b>51.68</b>	<b>67.25</b>
<b>Ratio analysis and assumptions</b>												
<b>As % of sales</b>												
Gross margin	32.3%	32.9%	35.8%	34.6%	34.1%	31.6%	31.8%	32.8%	32.3%	33.8%	34.0%	35.3%
Operating expense	-12.3%	-11.7%	-13.0%	-14.6%	-14.1%	-13.0%	-13.4%	-13.6%	-11.5%	-13.6%	-13.3%	-13.3%
Operating margin	20.0%	21.2%	22.8%	20.0%	20.0%	18.6%	18.4%	19.2%	20.8%	20.1%	20.7%	21.9%
Pretax margin	22.0%	22.3%	23.4%	21.1%	20.7%	19.9%	20.0%	20.9%	21.8%	21.1%	22.2%	23.8%
Tax rate (as % of EBT)	7.4%	8.1%	9.3%	9.3%	9.9%	8.9%	10.2%	10.3%	10.0%	9.3%	10.2%	11.3%
Net margin	20.4%	20.5%	21.2%	19.1%	18.7%	18.1%	17.9%	18.7%	19.6%	19.1%	20.0%	21.1%
<b>Qoq growth (%)</b>												
Sales	8.4%	34.0%	-16.2%	5.9%	9.4%	30.1%	-18.0%	4.7%				
Gross profits	8.5%	36.6%	-8.9%	2.3%	7.8%	20.8%	-17.5%	7.8%				
Operating profits	1.5%	42.3%	-9.8%	-7.3%	9.6%	20.8%	-18.9%	9.2%				
Non-operating profits	186.8%	-29.1%	-53.0%	91.3%	-29.1%	137.5%	-1.5%	14.7%				
Pre-tax profits	8.0%	35.6%	-11.9%	-4.7%	7.6%	24.8%	-17.7%	9.6%				
Net profits	21.1%	34.7%	-13.1%	-4.7%	6.9%	26.2%	-18.9%	9.5%				
EPS (weighted averaged)	21.1%	34.7%	-14.4%	-4.7%	6.9%	26.2%	-18.9%	9.5%				
<b>Yoq growth (%)</b>												
Sales	10.4%	37.1%	38.6%	28.9%	30.1%	26.2%	23.5%	22.2%	13.1%	30.2%	25.8%	22.9%
Gross profits	14.9%	45.3%	57.6%	38.2%	37.2%	21.3%	9.8%	15.8%	22.2%	36.1%	26.6%	27.6%
Operating profits	14.2%	44.1%	51.8%	20.8%	30.4%	10.7%	-0.4%	17.2%	24.6%	25.8%	29.1%	30.4%
Non-operating profits	229.6%	40.5%	NM	82.7%	-54.8%	51.4%	217.3%	90.2%	177.9%	32.1%	101.3%	48.7%
Pretax profits	21.6%	43.9%	59.1%	23.0%	22.5%	12.7%	5.3%	21.1%	27.7%	26.1%	32.4%	31.7%
Net profits	18.4%	43.1%	56.8%	35.0%	19.2%	11.7%	4.2%	19.8%	22.7%	27.1%	31.1%	30.1%
EPS	17.0%	41.4%	54.4%	32.9%	17.4%	10.0%	4.2%	19.8%	21.2%	25.1%	31.1%	30.1%
<b>Dividend policies</b>												
Cash dividends (NT\$ per share)									15.8	26.0	32.5	44.0
Payout ratio (%)									46.3%	67.3%	69.3%	71.3%

Source: Company reports, Goldman Sachs Research estimates.

## Reg AC

I, Joey Cheng, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Joey Cheng: Asia Pacific Technology.

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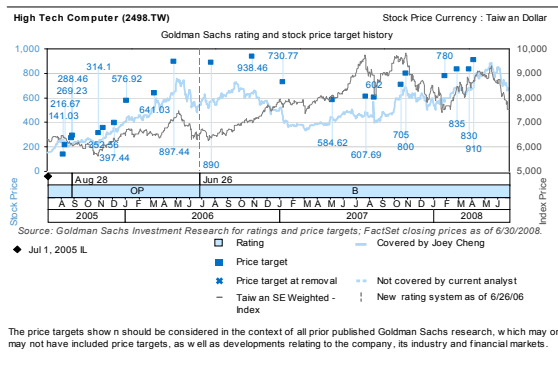
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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
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## Price target and rating history chart(s)



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