

Uncertainty ahead; downgrading to Underperform

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Merrill Lynch

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Relatively highly geared balance sheet becomes target

Market speculation over Taishin FHC's liquidity situation and related news may distract new investors and depress valuation, and hence a higher dilution even if success, in potential upcoming right issues. The share price has fallen about 60% YTD but short-term risks remain, in our view. We are cutting 2008E earnings 122% and 2009E earnings 76%, and lowering our PO 66% to NT\$5/shr.

Slower earnings recovery in 2008

Taishin FHC's 9M08 NT\$410mn net profit was lower than our expectations. Thinner NIM, weaker securities profits and a lower-than-expected profit contribution from Chang Hwa Bank caused the poor earnings. The Lehman Brothers collapse also damaged wealth management recovery momentum.

Weaker 2009E-10E by new accounting on provisions

The SFAS 34 accounting rule requesting banks' general provision against loans and receivables may be a drag on 2009-10 profits. Taishin may need to boost its general provision from 0.7% to 1% of performing loans (10bps increase means extra NT\$550mn provision).

Avoid short-term uncertainty

Despite trading at 0.4x P/B, short-term concerns are distracting investors from bargain hunting, unless viewing from a hostile-takeover angle. We would review recommendation once confirming secured investors interests to its rights issues.

Stock Data

Price	NT\$5.19
Price Objective	NT\$18.00 to NT\$5.00
Date Established	13-Oct-2008
Investment Opinion	C-1-8 to C-3-8
Volatility Risk	HIGH
52-Week Range	NT\$5.19-NT\$16.70
Mrkt Val / Shares Out (mn)	US\$914 / 5,710.3
Average Daily Volume	42,292,830
ML Symbol / Exchange	TSHFF / TWO
Bloomberg / Reuters	2887 TT / 2887.TW
ROE (2008E)	NA
Total Dbt to Cap (NAA)	NA
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	50.0%

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	(16,280)	2,654	(1,239)	2,181	2,904
EPS	(2.99)	0.465	(0.217)	0.382	0.509
EPS Change (YoY)	-384.8%	NM	NM	NM	33.2%
Dividend / Share	0	0	0.180	0	0.158
Pre-exceptional EPS	(2.97)	0.716	(0.113)	0.633	0.771
Pre-exceptional EPS Change (YoY)	420.8%	-124.1%	-115.8%	-661.2%	21.7%
Book Value / Share	11.28	11.19	10.63	11.22	11.57

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	NM	11.2x	NM	13.6x	10.2x
Dividend Yield	0%	0%	3.47%	0%	3.05%
Pre-exceptional PE	NM	7.25x	NM	8.20x	6.73x
Price / Book	0.483x	0.464x	0.488x	0.463x	0.449x
RoE / PB	NA	9.13x	NA	7.56x	9.95x
Price / Pre-Provision Profit	0.894x	1.09x	1.29x	1.12x	0.984x



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iQprofileSM Taishin Financial Holding Co.

Key Income Statement Data (Dec)

(NT\$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Interest Income	44,873	35,964	31,805	34,269	37,033
Net Fee Income	12,414	15,668	13,830	15,108	16,577
Securities Gains / (Losses)	1,465	2,533	1,122	2,357	2,794
Other Income	4,733	5,749	7,149	6,808	7,308
Total Non-Interest Income	18,611	23,950	22,101	24,273	26,679
Total Operating Income	63,484	59,914	53,906	58,542	63,712
Operating Expenses	(31,879)	(32,612)	(30,943)	(31,999)	(33,592)
Pre-Provision Profit	31,605	27,302	22,962	26,544	30,120
Provisions Expense	(42,439)	(11,948)	(16,932)	(14,927)	(14,563)
Operating Profit	(10,834)	15,354	6,030	11,617	15,557
Non-Operating Income	742.71	0	0	0	0
Pre-Tax Income	(10,091)	15,354	6,030	11,617	15,557
Net Income to Comm S/Hold.	(16,280)	2,654	(1,239)	2,181	2,904
Adjusted Net Income (Operating)	(16,280)	2,654	(1,239)	2,181	2,904

Key Balance Sheet Data

Total Assets	2,330,591	2,338,947	2,399,911	2,472,697	2,566,353
Average Interest Earning Assets	1,846,298	1,865,008	1,913,455	1,961,650	2,028,479
Weighted Risk Assets	1,331,069	1,430,367	1,455,764	1,505,770	1,562,762
Total Gross Customer Loans	1,406,553	1,485,974	1,531,154	1,581,314	1,632,902
Total Customer Deposits	1,628,076	1,669,016	1,722,772	1,804,586	1,890,258
Tier 1 Capital	122,351	132,756	146,585	153,023	159,490
Tangible Equity	39,844	43,860	41,679	46,060	48,060
Common Shareholders' Equity	61,388	63,877	60,679	64,060	66,060

Key Metrics

Net Interest Margin	2.43%	1.93%	1.66%	1.75%	1.83%
Tier 1 Ratio	9.2%	9.3%	10.1%	10.2%	10.2%
Effective Tax Rate	27.9%	32.3%	40.3%	27.5%	26.2%
Loan / Assets Ratio	59.2%	62.7%	63.0%	63.1%	62.7%
Loan / Deposit Ratio	84.8%	87.8%	87.7%	86.5%	85.1%
Oper Leverage (Inc Growth - Cost Growth)	-20.1%	-7.9%	-4.9%	5.2%	3.9%
Gearing (Assets / Equity)	38.0x	36.6x	39.6x	38.6x	38.8x
Tangible Common Equity / Assets	1.7%	1.9%	1.7%	1.9%	1.9%
Tangible Common Equity / WRAs	3.0%	3.1%	2.9%	3.1%	3.1%
Revenue Growth	6.7%	-5.6%	-10.0%	8.6%	8.8%
Operating Expense Growth	26.8%	2.3%	-5.1%	3.4%	5.0%
Provisions Expense Growth	15.1%	-71.8%	41.7%	-11.8%	-2.4%
Operating Revenue / Average Assets	2.7%	2.6%	2.3%	2.4%	2.5%
Operating Expenses / Average Assets	1.4%	1.4%	1.3%	1.3%	1.3%
Pre-Provision ROA	1.4%	1.2%	1.0%	1.1%	1.2%
ROA	NM	0.1%	NM	0.1%	0.1%
Pre-Provision ROE	51.1%	43.6%	36.9%	42.6%	46.3%
ROE	NM	4.2%	NM	3.5%	4.5%
RoTE	-40.9%	6.1%	-3.0%	4.7%	6.0%
RoWRAs	-1.2%	0.2%	-0.1%	0.1%	0.2%
Dividend Payout Ratio	NA	0%	NA	0%	31.1%
Efficiency Ratio (Cost / Income Ratio)	51.4%	56.8%	58.6%	57.0%	55.1%
Total Non-Interest Inc / Operating Inc	29%	40%	41%	41%	42%
Market-Related Revenue / Total Revenues	4.3%	6.6%	4.5%	7.3%	7.9%
Provisioning Burden as % of PPP	134.3%	43.8%	73.7%	56.2%	48.4%
NPLs plus Foreclosed Real Estate / Loans	2.0%	1.8%	1.5%	1.5%	1.5%
Loan Loss Reserves / NPLs	94.7%	74.6%	85.0%	88.7%	100.6%
Loan Loss Reserves / Total Loans	1.9%	1.3%	1.3%	1.3%	1.5%
Provisions Expense / Average Loans	3.1%	0.8%	1.1%	1.0%	0.9%

Other Metrics

Income / Employee	3.90	3.70	3.32	3.60	3.89
(Operating Expenses) / Employee	(1.96)	(2.01)	(1.90)	(1.97)	(2.05)
Pre-Provision Profit / Employee	1.94	1.69	1.41	1.63	1.84
Net Profit / Employee	(0.999)	0.164	(0.076)	0.134	0.177

Company Description

Taishin Financial is a mid-sized FHCs that has delivered consistent, strong core earnings growth. Taishin FHC consists of Taishin Bank (2nd largest credit card and cash card issuer with a strong consumer franchise), Taiwan Securities (top-3 broker with 5.1% brokerage market share) and Taishin Bills Finance. In 2H05, Taishin acquired 22% of Chang Hwa Bank (2801 TT), which can boost its loan market share to 8% if a merger takes place.

Investment Thesis

Slow NIM recovery, weaker wealth management income, lower Chang Hwa Bank earnings contribution and poor trading gains have led to minuscule YTD profits. We have turned much more cautious on the speed of Taishin FHC earnings recovery as slow fundamental recovery and additional provisions needs for new accounting standard could delay meaningful RoE recovery to 2011. Valuation is already at distressed level but short-term liquidity pressure concerns us despite no immediate capital shortfall.

Stock Data

Price to Book Value	0.5x
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Avoid short-term liquidity concerns

We are downgrading Taishin from Buy to Underperform, despite the 60% YTD share price correction. We see uncertainties on its fundraising, and the speed of future business regrowth could be slower than we had expected. While the distress valuation of 0.4x suggests significant upside potential if Taishin can safely pass through the macro and funding challenges, we expect the weak share price to continue until the company confirms secured funding sources. Among Taiwan financials, we prefer banks with relatively higher capital and a strong wealth management platform.

Recap concern continues to haunt

We had not expected Taishin to face liquidity problems as its loan/deposit ratio of 80%, NT\$120bn central bank NCD as liquid securities and surplus liquidity reserve ratios all suggest a rather relaxed liquidity condition. However, the Lehman event and reports that regulators were investigating possible irregularities in mergers among financial companies, including Taishin's stake acquisition in Chang Hwa, have triggered withdrawals. Intensive media coverage on structured notes risk and speculation about the next round of small-bank runs has encouraged a "flight to quality" on deposits. While an updated deposit inflow/outflow is not available, local news media have suggested banks with high leverage or low asset quality are losing deposits.

Commercial Times has reported that the Taiwanese government suggested a plan for Taishin to merge with Mega FHC. We believe this could distract investors from upcoming right issues if they are concerned about the probability of eventually owning government bank shares. Despite both MoF and Taishin denying such proposal, the news already caused unnecessary concerns, in our view.

Taishin has indicated it is currently looking for US\$300-400mn in fundraising either at bank or FHC level. It is looking to improve the FHC CAR level to about 105% from the current 100%. We also estimated NT\$6-10bn per year, during 2008-11, annual amortization on FHC sub-debt recognized as FHC qualified capital due to shortened time to maturity. Heavier pressure for sub-debt renewal or right issue could occur in 2009. The tougher funding environment and lower share prices may also slow Taishin's original plan of regional expansion and other alliance projects as it needs to best seize capital for current use.

Table 1: Annual amortization on FHC sub-debt recognized as FHC qualified capital

(NT\$m)	2005	2006	2007E	2008E	2009E	2010E	2011E
Total Sub debts	33,650	33,650	33,650	33,650	33,650	25,650	18,650
Sub-debt	8,000	6,400	3,840	1,536	307		
Sub-debt	2,000	2,000	1,600	960	384	77	
Sub-debt	5,000	5,000	4,000	2,400	960	192	
Sub-debt	12,000	12,000	12,000	9,600	5,760	2,304	461
Sub-debt	3,650	3,650	3,650	2,920	1,752	701	140
Sub-debt	3,000	3,000	3,000	2,400	1,440	576	115
Total Sub debt recognized as FHC Qualified Capital	33,650	32,050	28,090	19,816	10,603	3,850	716
YoY Change		(1,600)	(3,960)	(8,274)	(9,213)	(6,754)	(3,133)

Source: Merrill Lynch estimates, financial reports

Corporate image damage

Negative news flow, market speculation over liquidity issues and Lehman's failure have damaged Taishin's corporate reputation. Taishin is the second largest wealth management banker selling NT\$10bn Lehman's structured notes to retail customers, according to newspaper Commercial Times. Potential disputes and lost subsidies could hurt momentum in the wealth management business.

Table 2: Disappointing YTD results

(NT\$m)	9M08	YoY
Taishin FHC	410	-52%
Bank	440	-33%
Securities	20	-20%
Bills	-370	-6%
CHB & Other	320	
EPS	0.79	

Source: Taishin FHC

Poor YTD results, revised down 2008-09 EPS estimates

Taishin FHC's 8M08 net profit of NT\$410mn was disappointing. Thinner NIM, weaker securities profit and a lower-than-expected profit contribution from Chang Hwa Bank caused the poor earnings. The recent shock from the Lehman event also damaged the momentum in wealth management recovery. We expect it to take at least two more quarters to heal. We have cut our 2008 forecast to a net loss of NT\$644mn, or NT\$1.2bn after netting accumulative preferred dividend.

Relatively low coverage ratio drags future earnings growth

We had expected Taishin's earnings to recover in 2H2008 and accelerate in 2009 onward after a massive unsecured lending write-off (60% already). However, Taishin's relatively low coverage ratio makes it more vulnerable in earnings risk as it may need to catch up in general provisions after the new SFAS 34 accounting rule is implemented in 2011, and start requiring higher general provisions for performing loans. We believe its earnings recovery will not progress as we had expected.

Table 3: Cut 2008-09 forecast for low core earnings and weaker CHB contribution

(NT\$m)	Old		New		% Chg	
	2008E	2009E	2008E	2009E	2008E	2009E
Bank	4,167	7,429	(304)	1,344	-107%	-82%
Securities	1,800	1,646	573	1,646	-68%	0%
Bills Finance	207	311	(943)	406	-555%	31%
Chang Hwa Bank Contribution	2,031	2,098	1,236	1,399	-39%	-33%
FHC & others	1,016	1,129	30	219	-97%	-81%
Consolidated Net Profit	7,190	10,515	(644)	3,616	-109%	-66%
Preferred Dividend	(1,482)	(1,582)	(595)	(1,435)	-60%	-9%
Net Profit After Pref. Dividend	5,708	8,933	(1,239)	2,181	-122%	-76%
EPS	1.00	1.56	(0.22)	0.38	-122%	-76%

Source: Merrill Lynch Estimates

Valuation already low; may turn positive if new funding secured

Taishin is already trading near a distressed valuation of only 0.4x P/B ratio, but we are concerned about the uncertainties involved in its ability to secure a capital injection source, and the dilution derived if it were to succeed. Our PO of NT\$5.0/shr is based on discount to the SOTP method in which we have factored a much lower RoE and fair value multiple for both Taishin Bank and 25%-owned Chang Hwa Bank. The discount reflects concerns on potential dilution from rights issues and uncertainties in earnings.

Table 4: PO is based on discount to SOTP valuation

Subsidiaries	Multiple	Value	% of Total	Per Share
Taishin Bank	0.9x P/B	42,616	96%	7.5
Taiwan Securities	1x P/B	20,981	47%	3.7
Taishin Bills Finance	0.7x P/B	4,594	10%	0.8
Chang Hwa Bank	1.2x P/B	23,313	52%	4.1
Others & FHC Net debts		(47,050)	-106%	(8.2)
Total Value		44,454	100%	7.8
Per Share Value		7.78		
Target Price		5.00		

Source: Merrill Lynch Estimates

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Earnings Models

Table 5: Taishin FHC Forecast by subsidiaries

(NT\$m)	2006	2007	2008E	2009E	2010E
Bank	(19,650)	2,720	(304)	1,344	1,347
Securities	1,218	1,809	573	1,646	1,625
Bills Finance	384	4	(943)	406	446
Chang Hwa Bank Contribution	2,589	1,819	1,236	1,399	2,061
FHC & others	1,899	(443)	30	219	983
Profit before preferred dividend	(16,149)	4,089	(644)	3,616	4,401
Preferred Dividend	(131)	(1,435)	(595)	(1,435)	(1,497)
Net Profit After Preferred Dividend	(16,280)	2,654	(1,239)	2,181	2,904
EPS	(2.99)	0.46	(0.22)	0.38	0.51

Source: Merrill Lynch Estimates, Financial reports

Table 6: Taishin FHC Consolidated P&L

(NT\$m)	2006	2007	2008E	2009E	2010E
Net Interest Income	44,873	35,964	31,805	34,269	37,033
Net Fee Income	12,414	15,668	13,830	15,108	16,577
FX Gains/losses	1,257	1,403	1,314	1,917	2,239
Trading Income	1,465	2,533	1,122	2,357	2,794
Associate Contribution	20	44	687	744	922
Other Operating Income	3,455	4,302	5,147	4,147	4,147
Operating Revenue	63,484	59,914	53,906	58,542	63,712
Operating Expenses	(31,879)	(32,612)	(30,943)	(31,999)	(33,592)
Pre-provision Profit	31,605	27,302	22,962	26,544	30,120
Provisions	(42,439)	(11,948)	(16,932)	(14,927)	(14,563)
Operating profit after provisions	(10,834)	15,354	6,030	11,617	15,557
Non-operating Profit (Loss)	0	0	0	0	0
Pretax Profits	(10,834)	15,354	6,030	11,617	15,557
Tax	2,813	(4,961)	(2,430)	(3,196)	(4,078)
Extraordinary item	743	0	0	0	0
Net Profit before minority interest	(7,278)	10,393	3,600	8,422	11,479
Minority interest	(8,870)	(6,303)	(4,244)	(4,806)	(7,078)
Net Income	(16,149)	4,089	(644)	3,616	4,401
Preferred Dividend	(131)	(1,435)	(595)	(1,435)	(1,497)
Net Profit for Common Shr	(16,280)	2,654	(1,239)	2,181	2,904

Source: Merrill Lynch Estimates, Financial reports

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Table 7: FHC Consolidated Balance Sheet

(NT\$m)	2006	2007	2008E	2009E	2010E
Cash & Equivalent	59,848	37,599	31,222	32,995	41,577
CBC and Interbank	207,702	247,171	235,725	221,178	239,564
Financial Asset-MTM	142,347	95,473	109,118	114,691	117,413
Credit Card Receivables	28,491	22,966	28,732	40,269	43,285
Margin Loan	19,511	22,326	18,728	18,728	18,728
Other Current Asset	62,835	73,840	77,065	81,466	85,239
Net Loans	1,380,374	1,466,208	1,511,640	1,560,274	1,608,257
LT Investment	298,480	253,677	267,505	284,971	294,670
Net Fixed Assets	45,984	44,907	44,922	44,937	44,952
Other Assets	85,018	74,779	75,252	73,189	72,668
Total Assets	2,330,591	2,338,947	2,399,911	2,472,697	2,566,353
Due to banks	237,007	209,769	209,769	209,769	209,769
ST Debts	4,113	5,093	5,093	5,093	5,093
Repo Bond & MTM Liabilities	103,947	101,954	106,733	107,124	113,815
Other Current Liabilities	72,146	62,077	67,520	70,248	73,106
Deposits	1,628,076	1,669,016	1,722,772	1,804,586	1,890,258
Debenture, ECB, and LT Borrowings	114,468	114,177	114,280	96,280	88,280
Other Liabilities	18,052	19,810	19,810	19,810	19,810
Total Liabilities	2,177,809	2,181,895	2,245,976	2,312,910	2,400,130
Total Common Equity	61,388	63,877	60,679	64,060	66,060
Total Equity	90,388	92,877	89,679	93,060	95,060
Minority Interest	62,394	64,175	64,256	66,727	71,162
Total Liabilities & Equity	2,330,591	2,338,947	2,399,911	2,472,697	2,566,353

Source: Merrill Lynch Estimates, financial reports

Table 8: Taishin Bank P&L

(NT\$m)	2006	2007	2008E	2009E	2010E
Net Interest Income	25,887	16,587	12,878	13,861	14,870
Net Fee Income	5,458	6,567	6,347	7,301	8,363
Trading and FX	1,698	3,773	2,900	1,900	2,260
Associate Contribution	579	357	386	357	397
Other Revenue	96	580	580	580	580
Total Revenue	33,718	27,864	23,092	23,999	26,470
Expenses	(15,019)	(13,844)	(12,598)	(13,129)	(13,881)
Pre-provision Profit	18,699	14,020	10,493	10,870	12,589
Provisions	(45,181)	(11,314)	(11,992)	(9,248)	(10,974)
Op. Profit After Provision	(26,481)	2,706	(1,499)	1,623	1,615
Non-operating	-	-	1,000	-	-
Pretax	(26,481)	2,706	(499)	1,623	1,615
Taxes	6,685	14	195	(278)	(268)
Extraordinary Items	146	-	-	-	-
Net Income	(19,650)	2,720	(304)	1,344	1,347

Source: Merrill Lynch Estimates, financial reports

Price objective basis & risk

Taishin (TSHFF)

Our PO of NT\$5/shr is based on 35pct discount to its sum of the parts (SOTP) valuation, in which we applied P/BV multiples to each subsidiary based on our view of 2008 to 2010 industry positions. The discount reflects uncertainties from potential share dilution in upcoming rights issues and earnings volatility. Our SOTP valuation includes: (1) 0.9x 2009E P/BV for Taishin Bank, given slow RoE that may not recover to 10pct by 2011, (2) 1.0x 2009E P/BV for Taiwan Securities to account for its leading position in securities business, (3) 0.7x 2009E P/BV for Taishin Bills, given the unfavorable interest rate environment, (4) 1.2x 2009E P/BV for Chang Hwa Bank for ROE of 7 to 10pct during 2008E to 2010E and (4) 1x 2008E P/BV for other subsidiaries and FHC net debts. Upside risks: faster ROE enhancement. Downside risks: Unexpected trading gains/losses and influx/recovery of NPLs.

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Taiwan Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	China Life	CHLJF	2823 TT	Sophia Cheng
	Chinatrust	CTHFH	2891 TT	Katherine Hu
	Depo Auto Parts	DUOPF	6605 TT	Albert Hsu
	Far Eastern Textile	FREYF	1402 TT	Albert Hsu
	Fubon FHC	FUISF	2881 TT	Sophia Cheng
	Nak Sealing Tech	XMOOF	9942 TT	Albert Hsu
	SinoPac Financial Holdings	SPACF	2890 TT	Katherine Hu
NEUTRAL				
	Asia Cement	ASIXF	1102 TT	Albert Hsu
	Cathay FHC	CHYFF	2882 TT	Sophia Cheng
	E.Sun FHC	ESUFF	2884 TT	Katherine Hu
	Far East Dept.	FEDTF	2903 TT	Brandon Chen
UNDERPERFORM				
	China Motor	CHUYF	2204 TT	Albert Hsu
	Eternal Chemical	ETXCF	1717 TT	Albert Hsu
	Hota Ind Mfg Co	HOTIF	1536 TT	Albert Hsu
	Hotai Motor Co	HOTAF	2207 TT	Albert Hsu
	Kinik Company	KIKCF	1560 TT	Albert Hsu
	Shin Kong Financ	SKFHF	2888 TT	Sophia Cheng
	Taishin	TSHFF	2887 TT	Sophia Cheng
	Taiwan Cement	TGBMF	1101 TT	Albert Hsu
	Uni-President	XPDSF	1216 TT	Brandon Chen

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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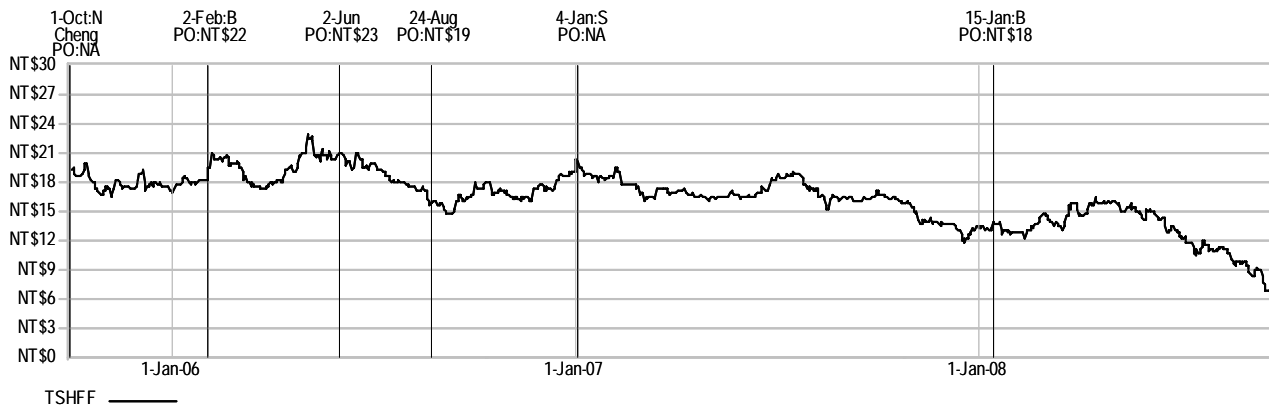
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13 October 2008

Important Disclosures

TSHFF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2008 or such later date as indicated.

Investment Rating Distribution: Financial Services Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	125	42.23%	Buy	47	38.21%
Neutral	92	31.08%	Neutral	31	34.83%
Sell	79	26.69%	Sell	20	25.64%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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