

Too much pessimism; Buy



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Buy reiterated with lower PO of NT\$100

We reiterate our Buy rating on FTC given its strong recovery in both revenue and margins for metal casing from mid-2008 and compelling P/E of 8.5x 09E (at the very trough of its five-year P/E band). We cut our EPS estimates by 17%/27% for 2008/09 to reflect lower revenue and margins mainly for metal casing and higher non-operating expenses. We reduce PO from NT\$197 to NT\$100 (30% upside).

Major earnings upswing in 2H08

We expect FTC to lift EPS by 76% QoQ to NT\$2.1 for 3Q given 33% QoQ revenue growth with margin expansion (by 100bp to a GPM of 26%) for its metal casing line (70% of earnings) and a lower tax rate. We expect FTC to raise EPS by another 36% QoQ for 4Q due to further growth of 30% from metal casing on the back of Apple's *refresh NB PCs* and *iPods*, and share gains.

Solid earnings growth for 2009

We expect FTC to raise EPS 20% YoY for 2009 driven by 20% revenue growth from metal casing and a slight margin increase (by 100bp YoY). Lower metal costs, savings from lower-cost production in Western China, and further efficiency improvements should warrant FTC's margin recovery.

Prefer FTC over Hon Hai, FIH and Catcher

We prefer FTC over Hon Hai (HNHAF; TWD81.1; C-2-7) and FIH (FXCNF; HKD; C-2-9) (both Neutral rated) given its margin improvement from 2Q08, and over Catcher (CHERF; TWD85.2; C-3-8) (downgraded to Underperform) on its higher earnings growth on the back of Hon Hai group synergy and recent underperformance by 50% for the past three months. Our PO of NT\$100 is based on 11x 09E, the very low end of its P/E range for the past five years.

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	6,351	9,292	6,451	7,773	9,261
EPS (Pre Bonus)	7.50	10.97	7.62	9.18	10.93
EPS (Post Bonus)	4.45	8.23	7.62	9.18	10.93
EPS Change (YoY)	44.3%	84.7%	-7.4%	20.5%	19.1%
Dividend / Share	2.71	3.58	2.50	3.00	3.50
Free Cash Flow / Share	(5.71)	(11.62)	3.90	5.96	8.37

* Taiwan GAAP changed from Pre Bonus to Post Bonus earnings from 2008.

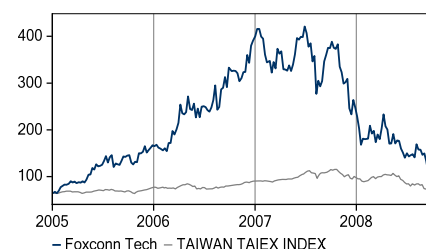
Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	17.22x	9.32x	10.07x	8.36x	7.02x
Dividend Yield	3.53%	4.67%	3.26%	3.91%	4.56%
Free Cash Flow Yield*	-7.44%	-15.15%	5.08%	7.77%	10.92%

* For full definitions of *iQmethod*SM measures, see page 7.

Stock Data

Price	NT\$76.70
Price Objective	NT\$197.13 to NT\$100.00
Date Established	23-Oct-2008
Investment Opinion	C-1-8
Volatility Risk	HIGH
52-Week Range	NT\$75.60-NT\$357.27
Mkt Val / Shares Out (mn)	US\$1,986 / 847.0
Average Daily Volume	6,481,555
ML Symbol / Exchange	FXTCF / TAI
Bloomberg / Reuters	2354 TT / 2354.TW
ROE (2008E)	12.7%
Net Dbt to Eqty (Dec-2007A)	31.1%
Est. 5-Yr EPS / DPS Growth	20.0% / 25.0%
Free Float	60.0%



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Refer to important disclosures on page 8 to 9. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5.

23 October 2008

iQprofileSM Foxconn Technology Co. Ltd.

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT\$ Millions)					
Sales	78,964	135,102	156,620	176,650	202,450
Gross Profit	9,595	13,683	14,196	16,427	18,706
Sell General & Admin Expense	(2,095)	(2,458)	(3,697)	(4,120)	(4,540)
Operating Profit	6,877	10,487	9,157	10,937	12,646
Net Interest & Other Income	259	(189)	(799)	(1,220)	(1,070)
Associates	NA	NA	NA	NA	NA
Pretax Income	7,136	10,298	8,358	9,717	11,576
Tax (expense) / Benefit	(785)	(1,006)	(1,907)	(1,943)	(2,315)
Net Income (Adjusted)	6,351	9,292	6,451	7,773	9,261
Average Fully Diluted Shares Outstanding	847	847	847	847	847

Key Cash Flow Statement Data

Net Income (Reported)	6,351	9,292	6,451	7,773	9,261
Depreciation & Amortization	1,397	2,457	3,756	3,795	3,700
Change in Working Capital	(5,839)	(12,570)	(2,508)	(3,311)	(2,809)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,177	1,567	(14)	(30)	(22)
Cash Flow from Operations	3,086	746	7,685	8,226	10,130
Capital Expenditure	(7,922)	(10,589)	(4,385)	(3,180)	(3,037)
(Acquisition) / Disposal of Investments	201	(146)	(1,000)	(1,000)	(1,000)
Other Cash Inflow / (Outflow)	(187)	128	0	0	0
Cash Flow from Investing	(7,909)	(10,607)	(5,385)	(4,180)	(4,037)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(914)	(2,495)	(3,122)	(2,193)	(2,643)
Cash Flow from Financing	3,846	20,154	(2,446)	6,807	4,357
Free Cash Flow	(4,836)	(9,844)	3,300	5,046	7,093
Net Debt	5,732	15,323	16,146	14,292	10,842
Change in Net Debt	5,674	(620)	581	(1,853)	(3,450)

Key Balance Sheet Data

Property, Plant & Equipment	15,533	24,035	24,665	24,050	23,387
Other Non-Current Assets	12,217	22,458	23,472	24,502	25,524
Trade Receivables	21,443	31,409	37,331	42,106	49,365
Cash & Equivalents	4,709	15,242	14,854	25,708	36,158
Other Current Assets	5,678	6,983	8,133	9,108	10,397
Total Assets	59,580	100,126	108,455	125,474	144,830
Long-Term Debt	722	13,692	14,000	20,000	22,000
Other Non-Current Liabilities	501	193	193	193	193
Short-Term Debt	9,720	16,873	17,000	20,000	25,000
Other Current Liabilities	20,130	20,053	24,618	27,057	32,796
Total Liabilities	31,072	50,811	55,811	67,249	79,988
Total Equity	28,507	49,316	52,645	58,225	64,842
Total Equity & Liabilities	59,580	100,126	108,455	125,474	144,830

iQmethodSM - Bus Performance*

Return On Capital Employed	21.2%	16.1%	9.2%	10.2%	10.3%
Return On Equity	30.3%	23.9%	12.7%	14.0%	15.0%
Operating Margin	8.7%	7.8%	5.8%	6.2%	6.2%
EBITDA Margin	10.5%	9.6%	8.2%	8.3%	8.1%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.5x	0.1x	1.2x	1.1x	1.1x
Asset Replacement Ratio	5.7x	4.3x	1.2x	0.8x	0.8x
Tax Rate (Reported)	11.0%	9.8%	22.8%	20.0%	20.0%
Net Debt-to-Equity Ratio	20.1%	31.1%	30.7%	24.5%	16.7%
Interest Cover	NM	15.8x	13.5x	14.0x	13.2x

Key Metrics

Stock comp. adjusted ROIC	18.9%	18.5%	8.8%	10.4%	10.2%
Stock comp. adjusted ROE	18.0%	17.9%	11.6%	12.9%	13.8%
Stock comp. adjusted EPS	4.45	8.23	7.62	9.18	10.93
Stock comp. adjusted P/E	17.22x	9.32x	10.07x	8.36x	7.02x

* For full definitions of iQmethodSM measures, see page 7.

Company Description

Foxconn Technology, 31%-owned by Hon Hai, is a key component supplier within the group. In 2007, assembly of game hardware (3% of GM) accounted for 66% of sales while the balance came from metal casing (21%, 30% of GM) and thermal products (12%). Nintendo, Hon Hai/FIH (Motorola, Apple, Nokia, Sony, HP), and Dell are key customers.

Investment Thesis

Investment thesis premised on: 1) margins for metal casing will expand further in 2H08 due to improving utilization rates, enhanced labor efficiency (25% of cost) at new sites, sharp fall in metal pricing (20%) from July and better contract prices (by 5-10%) on favorable currency exchange in 3Q08, and 2) revenue for metal casing expected to surge in 2H08 thanks to strong ramp-ups for 3G iPhones, new NB PC models, and even delayed launch of handset models.

Stock Data

Price to Book Value 1.2x

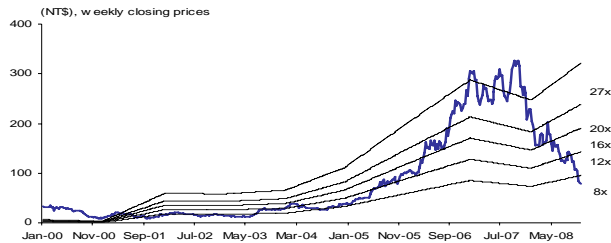
Too much pessimism; Buy

We reiterate our Buy rating on FTC given its strong recovery in both revenue and margins for metal casing from mid-2008 and compelling P/E of 8.5x 09E (at the very trough of its five-year P/E band). We cut our EPS estimates by 17%/27% for 2008/09 to reflect lower revenue and margins mainly for metal casing and higher non-operating expenses. We reduce PO from NT\$197 to NT\$100 (30% upside).

Table 1: FTC: Reducing estimates for 2008/9

NT\$m	New		Diff		YoY		Old	
	2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E
Sales	156,620	176,650	-2%	-5%	16%	13%	159,020	185,750
Gross Profit	14,196	16,427	-4%	-10%	4%	16%	14,727	18,306
Operating Expense	(5,039)	(5,490)	3%	1%	58%	9%	(4,884)	(5,450)
Operating Profit	9,157	10,937	-7%	-15%	-13%	19%	9,843	12,856
Non-operating Inc.	(799)	(1,220)	NM	NM	83%	53%	51	105
Pre-tax Profit	8,358	9,717	-16%	-25%	-17%	16%	9,893	12,961
Net Profit	6,451	7,773	-17%	-27%	-29%	20%	7,741	10,628
EPS	7.62	9.18					9.14	12.55
Gross Margin	9.1%	9.3%					9.3%	9.9%
Operating Expense	-3.2%	-3.1%					-3.1%	-2.9%
Operating Margin	5.8%	6.2%					6.2%	6.9%
Net Margin	4.1%	4.4%					4.9%	5.7%
Tax Rate	-22.8%	-20.0%					-21.8%	-18.0%

Source: Merrill Lynch estimates

Chart 1: FTC: Forward Taiwan-GAAP PE


Source: Bloomberg

Table 2: FTC: Huge underperformance vs Catcher for 1M/3M

	1m	3m	6m	YTD
Catcher	-3%	15%	-16%	-48%
FTC	-29%	-39%	-58%	-67%
Quanta	-23%	-21%	-20%	-17%
HTC	-24%	-14%	-25%	-3%
Hon Hai	-37%	-35%	-48%	-52%
TAIEX	-20%	-31%	-46%	-43%
Tech Index	-21%	-28%	-42%	-44%

Source: TEJ

Table 3: Valuation comparison table

	ML Symbol	ML Rating	Price 22-Oct-08	Mkt Cap (US\$m)	EPS (Local)		EPG		PER(x)		ROE (%)		Price YTD
					2008E	2009E	2008E	2009E	2008E	2009E	2007E	2008E	
Hon Hai	HNHAF	C-2-7 Neutral	81.1	19,396	8.91	10.96	76%	23%	9.1	7.4	16%	18%	-52%
Simplo	SPLOF	C-1-7 Buy	97.1	652	10.60	12.59	7%	19%	9.2	7.7	24%	25%	-31%
Sillitech	SLKCF	C-2-7 Neutral	74.6	412	6.27	6.31	-20%	1%	11.9	11.8	24%	23%	-30%
Largan	LGANF	C-1-7 Buy	321.0	1,348	25.82	26.83	25%	4%	12.4	12.0	30%	27%	-21%
Epistar	EPIPF	C-3-7 Underpe	43.2	877	1.68	1.76	-58%	5%	25.8	24.5	5%	5%	-69%
SZS	SZUSF	C-1-7 Buy	116.0	464	9.76	12.42	0%	27%	11.9	9.3	25%	27%	-34%
Everlight	EVLEF	C-3-7 Underpe	53.0	617	4.85	5.27	-25%	9%	10.9	10.1	17%	17%	-55%
FTC	FXTCF	C-1-8 Buy	76.7	2,096	7.62	9.18	-29%	20%	10.1	8.4	13%	14%	-67%
Catcher	CHERF	C-3-7 Underpe	85.2	1,646	8.01	8.00	-33%	0%	10.6	10.7	17%	16%	-48%

Source: Merrill Lynch estimates

23 October 2008

Table 4: FTC: Quarterly consolidated income statement (bonus-adjusted from 1Q08)

NT\$m	1Q08	2Q08	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007A	2008E	2009E	2010E
Sales	35,206	34,464	40,950	46,000	37,600	39,850	45,000	54,200	135,102	156,620	176,650	202,450
Cost of Sales	(32,596)	(31,462)	(37,104)	(41,262)	(34,196)	(36,252)	(40,753)	(49,022)	(121,419)	(142,424)	(160,223)	(183,744)
Gross Profit	2,610	3,002	3,846	4,738	3,404	3,598	4,247	5,178	13,683	14,196	16,427	18,706
Operating Expense	(1,103)	(1,106)	(1,330)	(1,500)	(1,190)	(1,240)	(1,400)	(1,660)	(3,196)	(5,039)	(5,490)	(6,060)
Oper. Exp. Promotion	(210)	(297)	(300)	(350)	(240)	(250)	(300)	(400)	(1,081)	(1,157)	(1,190)	(1,340)
Operating Exp.-ADM	(607)	(503)	(680)	(750)	(650)	(680)	(750)	(850)	(1,378)	(2,540)	(2,930)	(3,200)
Operat. Expense-R&D	(286)	(306)	(350)	(400)	(300)	(310)	(350)	(410)	(738)	(1,342)	(1,370)	(1,520)
Operating Profit	1,507	1,896	2,516	3,238	2,214	2,358	2,847	3,518	10,487	9,157	10,937	12,646
Non-operating Income	77	(116)	(400)	(360)	(300)	(300)	(315)	(305)	(437)	(799)	(1,220)	(1,070)
Net Interest Income	(266)	(113)	(100)	(100)	(100)	(100)	(125)	(125)	(469)	(579)	(450)	(400)
Investment Income									-	-	-	-
Disposal Gain	106								8	106	-	-
Exchange Gain	428	256							571	684	-	-
Others	(191)	(259)	(300)	(260)	(200)	(200)	(190)	(180)	(547)	(1,010)	(770)	(670)
Pre-tax Profit	1,584	1,780	2,116	2,878	1,914	2,058	2,532	3,213	10,051	8,358	9,717	11,576
Tax Expense	(339)	(769)	(339)	(460)	(383)	(412)	(506)	(643)	(1,006)	(1,907)	(1,943)	(2,315)
Net Profit	1,245	1,011	1,778	2,417	1,531	1,646	2,026	2,570	9,045	6,451	7,773	9,261
EPS	1.47	1.19	2.10	2.85	1.81	1.94	2.39	3.03	10.97	7.62	9.18	10.93
Gross Margin	7.4%	8.7%	9.4%	10.3%	9.1%	9.0%	9.4%	9.6%	10.1%	9.1%	9.3%	9.2%
Operating Expense	-3.1%	-3.2%	-3.2%	-3.3%	-3.2%	-3.1%	-3.1%	-3.1%	-2.4%	-3.2%	-3.1%	-3.0%
Operating Margin	4.3%	5.5%	6.1%	7.0%	5.9%	5.9%	6.3%	6.5%	7.8%	5.8%	6.2%	6.2%
Pre-tax Margin	4.5%	5.2%	5.2%	6.3%	5.1%	5.2%	5.6%	5.9%	7.4%	5.3%	5.5%	5.7%
Net Margin	3.5%	2.9%	4.3%	5.3%	4.1%	4.1%	4.5%	4.7%	6.7%	4.1%	4.4%	4.6%
Tax Rate	-21.4%	-43%	-16%	-16%	-20%	-20%	-20%	-20%	-10%	-23%	-20%	-20%
Sequential Growth												
Sales	-11%	-2%	19%	12%	-18%	6%	13%	20%	71%	16%	13%	15%
Cost of Sales	-8%	-3%	18%	11%	-17%	6%	12%	20%	75%	17%	12%	15%
Gross Profit	-38%	15%	28%	23%	-28%	6%	18%	22%	43%	4%	16%	14%
Operating Expense	38%	0%	20%	13%	-21%	4%	13%	19%	18%	58%	9%	10%
Operating Profit	-56%	26%	33%	29%	-32%	6%	21%	24%	67%	-13%	19%	16%
Non-operating Income	-113%	-251%	245%	-10%	-17%	0%	5%	-3%	-151%	-112%	53%	-12%
Pre-Tax Profit	-43%	12%	19%	36%	-33%	8%	23%	27%	41%	-2%	16%	19%
Tax Expense	191%	127%	-56%	36%	-17%	8%	23%	27%	28%	90%	2%	19%
Net Profit	-53%	-19%	76%	36%	-37%	8%	23%	27%	42%	-14%	20%	19%

Source: Merrill Lynch estimates

Price objective basis & risk

Foxconn Tech (FXTCF)

Our price objective of NT\$100 is based on 11x 2009E P/E. This marks the very low-end of its P/E band between 2005 and 2008 and is very conservative given the gradual improvement in earnings growth from 2H08E, particularly helped by rising margins for metal casing. Risks to our price objective: (1) soft demand for handsets and MP3s, (2) slower adoption of metal casing for notebook PCs, handsets and MP3s, (3) limited delivery of new products, and (4) further margin pressure.

Analyst Certification

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APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Electron	CMPLF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su
	Ju Teng Intl	JUTGF	3336 HK	Ronnie Ho

23 October 2008

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	Kingboard	KBDCF	148 HK	Ronnie Ho
	Largan Precision	LGANF	3008 TT	Laura Chen
	LG Electronics	LGEAF	066570 KS	Daniel Kim, CFA
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	SSCP CO LTD	SSCPF	071660 KS	Daniel Kim, CFA
	TPV	TPVTF	903 HK	Daniel Kim, CFA
	Venture Corp.	VEMLF	VMS SP	Ronnie Ho
NEUTRAL				
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Tony Tseng, CFA
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	HTC Corp.	HTCCF	2498 TT	Tony Tseng, CFA
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	Inventec Applian	IVAPF	3367 TT	Tina Chang, CFA
	Lenovo Group	LNVGF	992 HK	Daniel Kim, CFA
	Lenovo Group	LNVGY	LNVGY US	Daniel Kim, CFA
	Qisda Corp	BNQCF	2352 TT	Jeffrey Su
	Radiant	ROPTF	6176 TT	Jeffrey Su
	Silitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
UNDERPERFORM				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Gemtek Technolog	GTKTF	4906 TT	Laura Chen
	LG Display Co., Ltd.	LPHLF	034220 KS	Daniel Kim, CFA
	LG Display Co., Ltd.-A	LPL	LPL US	Daniel Kim, CFA
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Samsung Elec M	SSEMF	009150 KS	Daniel Kim, CFA
	Samsung SDI	SSDIF	006400 KS	Daniel Kim, CFA
	Seoul Semicon	SLSOF	046890 KS	Simon Dong-je Woo, CFA
	Unisteel Tech	UNSGF	USTL SP	Ronnie Ho
	Wellypower	XTTWF	3080 TT	Jeffrey Su
	ZTE Corp - H	ZTCOF	763 HK	Ronnie Ho

23 October 2008

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
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	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

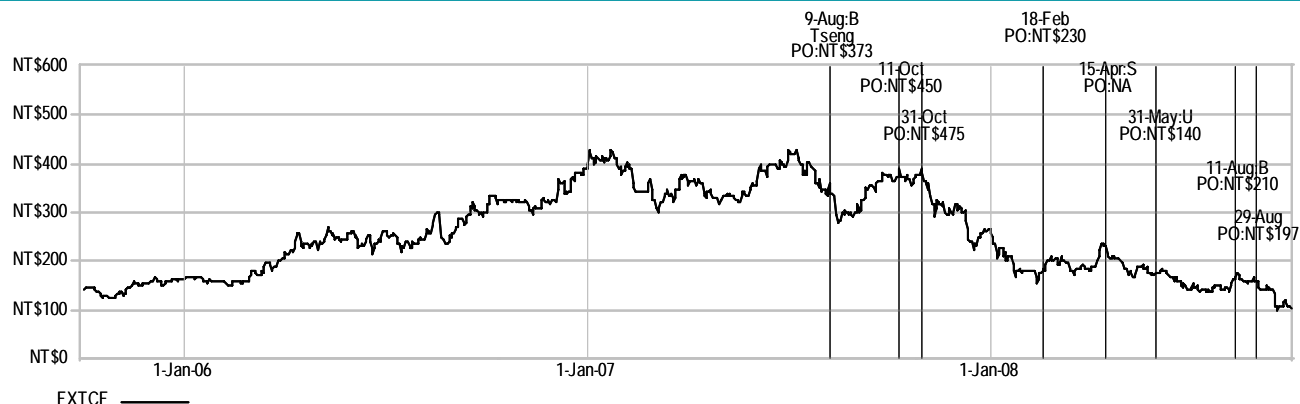
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Important Disclosures

FXTCF 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: Electronics Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	42	40.00%	Buy	8	20.51%
Neutral	32	30.48%	Neutral	3	11.11%
Sell	31	29.52%	Sell	2	7.41%

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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