

COMMENT

Innolux Display Corp. (3481.TW) NT\$25.35**Negative News – Estimates Under Review****3Q08 result worse than expected****News**

Similar to its panel peers, Innolux released disappointing 3Q08 net earnings of NT\$103 mn, down 97% qoq, and 93% and 87% lower than consensus and our estimate, respectively. 3Q08 sales (parent-based) of NT\$41 bn were down 7% qoq, which we believe is attributable to weaker than expected panel prices in the monitor market. Parent gross/operating margin slipped sharply to 3.2%/0.2% from 10.4%/7.5% in 2Q08. Our consolidated gross/operating margin estimates are 7.0%/2.6% in 3Q08, down from 12.3%/7.8% in 2Q08.

Analysis

Although Innolux's superior business model continues to help deliver stable profitability from monitor EMS operations, this is now relatively too small to compensate for a large earnings shortfall from free-falling panel prices in 3Q08, which hit much sharper and earlier than we anticipated. We estimate monitor panel prices were already close to Innolux's cash cost levels by September.

In addition, we believe the persistent economic uncertainty will decelerate LCD TV and IT expenditure in 1H09 and thus do not expect the cycle to turn around in the next six months. As the sector outlook remains difficult on the back of softening end-demand and likely persistent industry-wide overcapacity, we retain our cautious view on the Taiwan TFT sector and suggest remaining on the sidelines for Innolux.

Implications

Innolux currently trades at 9.4X/8.9X on 2008E/2009E P/E, on par with Taiwan tech peers of 9.5X/8.4X. We currently have Neutral rating on Innolux and are placing our forecasts and target price under review. We await detailed consolidated numbers.

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Neutral

Coverage View: NeutralTaiwan:
Hardware

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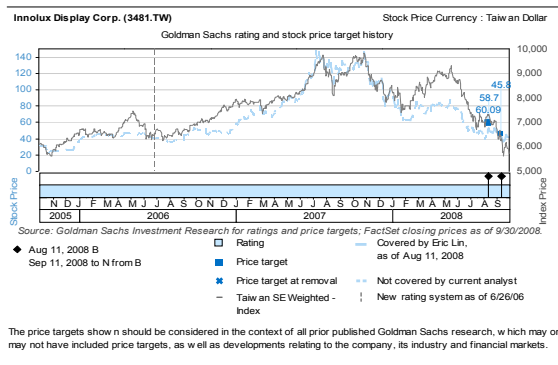
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Price target and rating history chart(s)



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