

Equity | Taiwan | Industrials/Multi-Industry  
21 October 2008

# Fundamentals intact



## Robust 3Q result and solid outlook

Largan on 21 October announced 3Q08 earnings of NT\$1.1bn (up 57% QoQ and 73% YoY), which is ahead of our estimate by 29% due to gross margin expansion (from 53.7% in 2Q to 54.6%) and forex gains. We reiterate our Buy rating and NT\$393 price objective, and expect Largan's leading technology and better secured order flow will help it weather the macro uncertainty.

## 4Q cautions optimistic

Management said current order flow remains intact. Given the micro headwind, management tends to be conservative and think there might be an order cut in Nov/Dec. We estimate a flat 4Q, with only 0.5% sales growth. However, we think Largan's margin should be sustainable thanks to increasing 3MP shipments.

## Fixed-focus 3MP to be mainstream in 2009

Our latest report in "[Time to revisit: up to Buy](#)", [Oct 2 2008](#) that many handset makers will position their fixed-focus (FF) 3MP camera phones as a mainstream product. We think this will help boost 3MP's popularity. Largan's 3MP shipments have reached 10%-plus, and the steady growth trend should continue. We expect 3MP's sales contribution will rise from 9% in 2008 to 30% in 2009.

## Catalyst for the stock

Given recent market turmoil, Largan's share price has corrected around 20% in recent months, while still outperforming TAIEX by 12%. We expect the share price to be volatile in the near term due to market concern over handset growth. However, we believe Largan deserves a substantial valuation premium because it offers a stronger earnings growth profile (funded from free cash), higher growth rate than its peers, and robust ROE.

## Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	3,891	2,581	3,329	3,491	3,865
EPS (Pre Bonus)	31.593	20.728	29.673	30.839	34.137
EPS (Post Bonus)	24.277	13.096	25.815	26.830	29.699
EPS Change (YoY)	226.3%	-46.1%	97.1%	3.9%	10.7%
Dividend / Share	11.40	9.80	9.93	11.71	12.96
Free Cash Flow / Share	20.54	23.29	19.95	23.71	26.19

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

## Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	12.36x	22.91x	11.62x	11.18x	10.10x
Dividend Yield	3.80%	3.27%	3.31%	3.90%	4.32%
Free Cash Flow Yield*	6.48%	7.43%	6.59%	7.90%	8.73%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 7.

Laura Chen >> +886 2 2376 3723

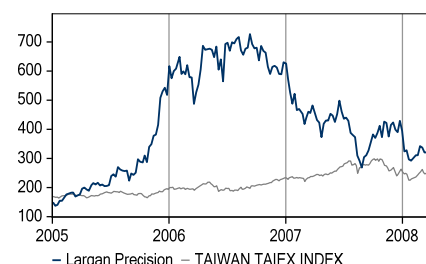
Research Analyst  
Merrill Lynch (Taiwan)  
laura\_chen@ml.com

Daniel Kim, CFA >> +852 2536 3443

Research Analyst  
Merrill Lynch (Hong Kong)  
daniel\_kim@ml.com

## Stock Data

Price	NT\$300.00
Price Objective	NT\$393.00
Date Established	13-Oct-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	NT\$262.75-NT\$460.78
Mkt Val / Shares Out (mn)	US\$1,198 / 130.1
Average Daily Volume	2,100,908
ML Symbol / Exchange	LGANF / TAI
Bloomberg / Reuters	3008 TT / 3008.TW
ROE (2008E)	30.0%
Net Dbt to Eqty (Dec-2007A)	-20.9%
Est. 5-Yr EPS / DPS Growth	15.0% / 20.0%
Free Float	50.0%



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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.

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# iQprofile<sup>SM</sup> Largan Precision Co. Ltd.

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
<b>(NT\$ Millions)</b>					
Sales	7,341	5,881	7,927	8,736	9,716
Gross Profit	4,547	3,273	4,273	4,649	5,150
Sell General & Admin Expense	(273)	(226)	(288)	(288)	(321)
Operating Profit	4,111	2,911	3,419	3,763	4,168
Net Interest & Other Income	58	93	97	32	32
Associates	0	0	0	0	0
Pretax Income	4,169	3,004	3,516	3,795	4,200
Tax (expense) / Benefit	(278)	(423)	(187)	(303)	(335)
Net Income (Adjusted)	3,891	2,581	3,329	3,491	3,865
Average Fully Diluted Shares Outstanding	123	125	129	130	130

## Key Cash Flow Statement Data

Net Income (Reported)	3,891	2,581	3,329	3,491	3,865
Depreciation & Amortization	513	551	766	852	852
Change in Working Capital	(601)	333	(472)	(257)	(308)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	228	154	(50)	0	0
Cash Flow from Operations	4,031	3,619	3,573	4,086	4,409
Capital Expenditure	(1,502)	(719)	(1,000)	(1,000)	(1,000)
(Acquisition) / Disposal of Investments	1	1	0	0	0
Other Cash Inflow / (Outflow)	(1,341)	217	0	0	0
Cash Flow from Investing	(2,843)	(501)	(1,000)	(1,000)	(1,000)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(802)	(1,382)	(1,232)	(1,273)	(1,580)
Cash Flow from Financing	(888)	(1,848)	(1,432)	(1,473)	(1,780)
Free Cash Flow	2,529	2,900	2,573	3,086	3,409
Net Debt	(609)	(2,115)	(3,257)	(4,869)	(6,498)
Change in Net Debt	(258)	(1,508)	(1,141)	(1,613)	(1,628)

## Key Balance Sheet Data

Property, Plant & Equipment	3,982	4,163	4,397	4,546	4,694
Other Non-Current Assets	300	294	150	150	150
Trade Receivables	2,077	1,782	2,172	2,393	2,662
Cash & Equivalents	903	2,178	3,320	4,932	6,561
Other Current Assets	3,070	2,755	2,989	3,090	3,201
Total Assets	10,331	11,172	13,028	15,111	17,268
Long-Term Debt	31	39	39	39	39
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	263	24	24	24	24
Other Current Liabilities	883	988	927	942	1,015
Total Liabilities	1,177	1,051	990	1,005	1,078
Total Equity	9,154	10,121	12,037	14,106	16,191
Total Equity & Liabilities	10,331	11,172	13,028	15,111	17,268

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	47.3%	26.0%	28.0%	26.0%	24.9%
Return On Equity	51.0%	26.8%	30.0%	26.7%	25.5%
Operating Margin	56.0%	49.5%	43.1%	43.1%	42.9%
EBITDA Margin	63.0%	58.9%	52.8%	52.8%	51.7%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.0x	1.4x	1.1x	1.2x	1.1x
Asset Replacement Ratio	2.9x	1.3x	1.3x	1.2x	1.2x
Tax Rate (Reported)	6.7%	14.1%	5.3%	8.0%	8.0%
Net Debt-to-Equity Ratio	-6.6%	-20.9%	-27.1%	-34.5%	-40.1%
Interest Cover	NM	NM	NM	NM	NM

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

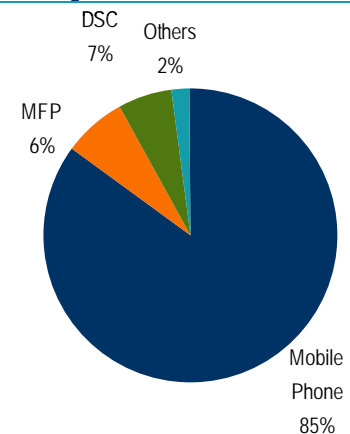
## Company Description

Largan, established in 1987, is based in Tai Chung, Taiwan. The company is Taiwan's leading optical lens manufacturer for digital imaging products. These include digital cameras, mobile phone cameras, projectors, and MFPs.

## Investment Thesis

We are positive on Largan as we believe most of the uncertainties are in the price. For 2009, we expect upside potential from (1) product mix migration to 3MP, (2) intact market share leaders with more upside from Motorola, and (3) removal of threat from wafer-level optics thanks to migration to higher-end product. We are confident Largan's YoY earnings growth in 2009 will outpace other Taiwanese handset component makers.

Chart 1: Largan: 1-3Q 08 revenue breakdown



Source: Company data

## Stock Data

Price to Book Value 3.2x

## Highlights from analyst meetings

Table 1: Largan: 3Q08 results

NT\$m	3Q08A	3Q08E	Diff. (%)	2Q08A	QoQ (%)	3Q07A	YoY (%)	3Q08 pre bonus	QoQ (%)	YoY (%)
Sales	2,159	2,150	0.4	1,884	14.6	1,400	54.2	2,159	14.6	54.2
Gross Profit	1,179	1,155	2.1	1,009	16.9	768	53.5	1,255	24.4	63.3
Opex	(255)	(217)	17.2	(202)	25.8	(100)	154.6	(115)	-43.1	15.1
Operating Profit	925	938	-1.4	806	14.7	668	38.4	1,139	41.3	70.6
Non-Op	209	8	2517.6	15	1296.1	34	515.9	209	1296.1	515.9
Pre-tax Profit	1,134	946	19.9	821	38.1	702	61.5	1,349	64.2	92.1
Net Profit	1,133	879	28.8	722	56.9	656	72.8	1,294	79.2	97.4
<b>Reported EPS (NT\$)</b>	<b>8.78</b>	<b>6.82</b>	<b>28.8</b>	<b>5.60</b>	<b>56.9</b>	<b>5.27</b>	<b>66.8</b>	<b>10.04</b>	<b>79.2</b>	<b>90.6</b>
Gross Margin	54.6%	53.7%		53.5%		54.8%		58.1%		
Opex	-11.8%	-10.1%		-10.7%		-7.1%		-5.3%		
Operating Margin	42.8%	43.6%		42.8%		47.7%		52.8%		
Pre-tax Margin	52.5%	44.0%		43.6%		50.1%		62.5%		
Net Margin	52.5%	40.9%		38.3%		46.8%		59.9%		

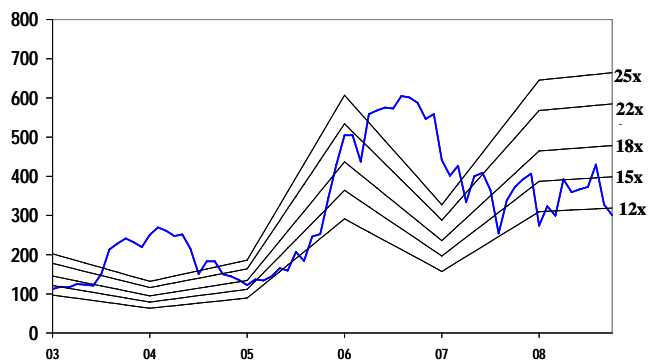
Source: Company data, Merrill Lynch estimates

Table 2: Largan: 3Q08 analyst meeting highlights

Positives	ML comment
Better-than-expected gross margin in 3Q; up to 54.6% from 53.5% in 2Q. Also beat our estimate of 53.7%	Gross margin expansion helped by 1) increasing 3MP shipments, 2) NTD depreciation, and 3) strong economy of scale and yield rate control capability
2MP is mainstream now, but 3MP shipment reached 10%-plus in late 2Q	We expect 3MP contribution will gradually ramp up, and expect sales contribution to reach 30% in 2009, up from 9% in 2008.
EDOF and FF will be come the mainstream for 3MP; only 5MP+ will use VCM for Auto Focus; Its EDof lens module will be ship out in 1Q09	Reaffirm our positive view on Largan's pixel migration
Neutrals	ML comment
4Q order flow remains solid, while there is potential risk on order cut in Nov/Dec	We forecast a flat 4Q sales growth with 1% increase.
Negatives	ML comment
Continuing ASP decline offset volume growth	Migration to higher end product will help offset the ASP decline
Slower product diversification (auto, NB etc) while handset remains as its only growth driver.	Handset-related business remains over 85% of its revenue in two years prospective.

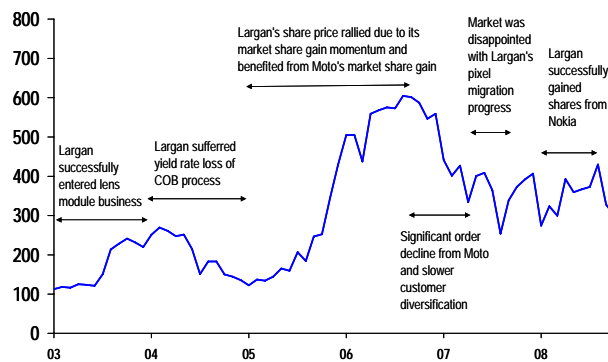
Source: Company data, Merrill Lynch

Chart 2: Largan: Bonus-adjusted P/E bands



Source: TEJ, Merrill Lynch estimates

Chart 3: Share price chart and key events



Source: TEJ, Merrill Lynch

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Table 3: Taiwan handset component valuation comparison

	ML Symbol	ML Rating	Price 21 Oct 2008	Mkt Cap (US\$mn)	EPS		EPG		PER(x)		Net cash Mkt Cap	Perform YTD
					2008E	2009E	2008E	2009E	2008E	2009E		
<b>Handset</b>												
HTC	HTCCF	C-2-7 Neutral	435.0	10,080	40.9	49.6	42%	21%	10.6	8.8	23%	-27%
Largan	LGANF	C-1-7 Buy	300.0	1,198	25.8	26.8	97%	4%	11.6	11.2	13%	-30%
CCI	CPCMF	C-3-7 Underperform	25.8	485	2.3	3.1	-44%	34%	11.2	8.4	54%	-68%
FIH	FXCNF	C-2-9 Neutral	3.1	2,862	0.4	0.6	-47%	45%	7.1	4.9	16%	-83%
Sillitech	SLKCF	C-2-7 Neutral	75.0	394	6.3	6.3	25%	1%	12.0	11.9	14%	-41%
Merry	MMECF	C-3-7 Underperform	29.2	143	4.1	4.0	-22%	-3%	7.1	7.3	13%	-71%
Catcher	CHERF	C-1-8 Buy	83.2	1,530	8.0	9.3	-29%	17%	10.4	9.0	0%	-56%
FTC	FXTCF	C-1-8 Buy	78.2	2,033	9.1	12.5	14%	37%	8.6	6.2	-11%	-70%
BYD	BYDDF	C-1-9 Buy	15.0	3,974	0.6	1.0	-8%	65%	23.6	14.4	-19%	-71%
AAC*	n.a.	n.a.	4.7	934	0.7	0.8	49%	21%	7.0	5.8	13%	-55%
IAC	IVAPF	C-2-8 Neutral	30.2	474	5.5	5.9	3%	7%	5.5	5.1	48%	-54%
Average					11.1	2.7	7%	23%	10.4	8.4		-57%

Source: BBG, Merrill Lynch estimates

Table 4: Largan: Quarterly P&amp;L

NT\$mn (year-end Dec)	1Q08	2Q08	3Q08	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2008E	2009E	2010E
Sales	1,713	1,884	2,159	2,171	1,835	2,027	2,315	2,560	7,927	8,736	9,716
Cost of goods sold	-794	-875	-980	-1,005	-859	-942	-1,088	-1,198	-3,654	-4,087	-4,567
Gross profit	919	1,009	1,179	1,166	976	1,084	1,227	1,362	4,273	4,649	5,150
Operating expenses	-180	-202	-254	-217	-185	-206	-235	-260	-854	-886	-981
Operating profit	739	806	925	949	791	878	992	1,102	3,419	3,763	4,168
Net non-op	-135	15	209	8	8	8	8	8	97	32	32
Pretax profit	604	821	1,134	957	799	886	1,000	1,110	3,516	3,795	4,200
Tax expenses	-20	-99	-1	-67	-48	-106	-60	-89	-187	-303	-335
Net profit	584	722	1,133	890	751	780	940	1,021	3,329	3,491	3,865
EPS (NT\$)	4.53	5.60	8.78	6.90	5.77	5.99	7.22	7.85	25.82	26.83	29.70
<b>Margin (%)</b>	<b>1Q08</b>	<b>2Q08</b>	<b>3Q08</b>	<b>4Q08E</b>	<b>1Q09E</b>	<b>2Q09E</b>	<b>3Q09E</b>	<b>4Q09E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Gross margin	53.7%	53.5%	54.6%	53.7%	53.2%	53.5%	53.0%	53.2%	53.9%	53.2%	53.0%
Operating expense	-10.5%	-10.7%	-11.8%	-10.0%	-10.1%	-10.2%	-10.2%	-10.2%	-10.8%	-10.1%	-10.1%
Operating margin	43.1%	42.8%	42.8%	43.7%	43.1%	43.3%	42.8%	43.0%	43.1%	43.1%	42.9%
Pre-tax margin	35.3%	43.6%	52.5%	44.1%	43.5%	43.7%	43.2%	43.4%	44.4%	43.4%	43.2%
Net margin	34.1%	38.3%	52.5%	41.0%	40.9%	38.5%	40.6%	39.9%	42.0%	40.0%	39.8%
Tax rate	-3.3%	-12.1%	-0.1%	-7.0%	-6.0%	-12.0%	-6.0%	-8.0%	-5.3%	-8.0%	-8.0%
<b>Sequential growth (%)</b>	<b>1Q08</b>	<b>2Q08</b>	<b>3Q08</b>	<b>4Q08E</b>	<b>1Q09E</b>	<b>2Q09E</b>	<b>3Q09E</b>	<b>4Q09E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Sales	-9.5%	10.0%	14.6%	0.5%	-15.5%	10.5%	14.2%	10.6%	34.8%	10.2%	11.2%
Cost of goods sold	-4.5%	10.3%	12.0%	2.5%	-14.6%	9.8%	15.5%	10.1%	40.1%	11.8%	11.7%
Gross profit	-13.4%	9.7%	16.9%	-1.1%	-16.3%	11.1%	13.2%	11.0%	30.6%	8.8%	10.8%
Operating expenses	79.8%	12.2%	25.7%	-14.7%	-14.7%	11.3%	14.1%	10.5%	na	3.8%	10.7%
Operating profit	-23.1%	9.1%	14.7%	2.6%	-16.6%	11.0%	12.9%	11.1%	17.4%	10.1%	10.8%
Net non-op	na	na	na	-96.2%	0.0%	0.0%	0.0%	0.0%	na	na	0.0%
Pretax profit	-37.5%	36.0%	38.1%	-15.6%	-16.5%	10.9%	12.8%	11.0%	17.1%	7.9%	10.7%
Tax expenses	-78.6%	na	-98.8%	na	-28.4%	na	-43.6%	48.0%	-55.8%	62.1%	10.7%
Net income	-33.2%	23.6%	56.9%	-21.5%	-15.6%	3.9%	20.5%	8.7%	29.0%	4.9%	10.7%

Source: Company data, Merrill Lynch estimates

## Price objective basis & risk

### Largan Precision (LGANF)

Our PO of NT\$393 is based on 15x FY09E EPS, which is at the low end of its historical PE band. Largan de-rated in 2005-06 due to yield rate loss on technology transition. Having since beefed up its leading position in the lens module business, we don't see Largan trading back to its historical trough. Since risks of a deceleration in handset growth are rising, we think the company is not likely to trade back to its previous high PER. However, we believe its stronger earnings growth profile and robust ROE should support its valuation premium compared to its peers. Risks are: quicker-than expected lens module price erosion and slower than-expected global handset demand.

## Analyst Certification

I, Laura Chen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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**APR - Technology Hardware Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Electron	CMLPF	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
	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
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	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 Applan	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
	Sillitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
<b>UNDERPERFORM</b>				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	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
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	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

21 October 2008

***iQmethod*<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
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
<b>Quality of Earnings</b>		
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
<b>Valuation Toolkit</b>		
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

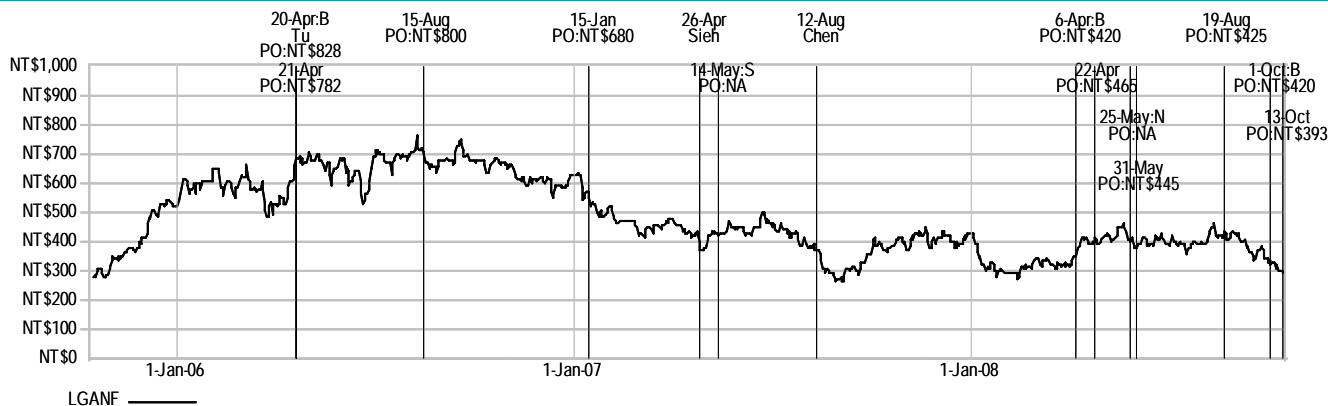
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### LGANF Price Chart



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: Industrials/Multi-Industry Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	60.00%	Buy	10	18.87%
Neutral	17	17.00%	Neutral	5	31.25%
Sell	23	23.00%	Sell	2	10.00%

### 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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