

Outperform industries growth in the downturn



3Q earnings preview

Mediatek posted 3Q sales of NT\$27.9bn (up 25% QoQ, 4.5% YoY). The company is set to release its 3Q earnings on 30 October. Anticipating a better product mix and NTD depreciation, we foresee upside potential for the company's GM, with an EPS of NT\$6.69 (up 38.4% QoQ).

Good chance to beat 4Q consensus estimates

While the market is expecting a mid-teens sequential sales decline for Mediatek in light of weaker tech demand and handset inventory correction, our latest check suggests the company has good chance to beat consensus. We have modeled for an 11% QoQ sales decline, which is in the mid-range of its five-year historical. As Texas Instruments and Freescale have announced their decision to quit the handset baseband business, we expect Mediatek will be the potential beneficiary from consolidation in the industry in the longer term.

Solid product line to offset the micro negatives

Given the rising concern on weaker PC demand, we have factored in a flat YoY growth for its PC ODD business. We expect upside potential if the company is able to generate a stronger-than-expected BD penetration momentum or/and less negative PC growth trend. For its TV business, we believe Mediatek's new solutions, such as advanced ME/MC 120 MHz SoC, can help the company to strengthen its global No.1 position. We think the company's solid product line will help it offset the micro negatives.

Reiterate Buy on solid fundamentals

While we slightly revised down our FY09 forecast anticipating weaker tech demand and micro headwind, we like Mediatek's solid product portfolio and intact industry position. The company's quality balance sheet and strong cash on hand should also provide good support during the downturn. We reiterate our Buy rating on the company with a PO of NT\$408, which is based on 17x FY09E EPS (from previous NT\$450, 19x FY08/09E average EPS).

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	22,572	33,581	22,232	25,412	30,111
EPS (Pre Bonus)	22.392	32.612	27.963	31.573	37.412
EPS (Post Bonus)	10.562	23.497	21.100	23.680	28.059
EPS Change (YoY)	-18.3%	122.5%	-10.2%	12.2%	18.5%
Dividend / Share	15.00	19.00	16.47	18.94	22.45
Free Cash Flow / Share	21.18	25.06	27.19	34.16	39.92

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

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	29.11x	13.09x	14.57x	12.99x	10.96x
Dividend Yield	4.88%	6.18%	5.36%	6.16%	7.30%
Free Cash Flow Yield*	6.47%	7.82%	8.68%	11.11%	12.98%

* For full definitions of *iQmethod*SM measures, see page 9.

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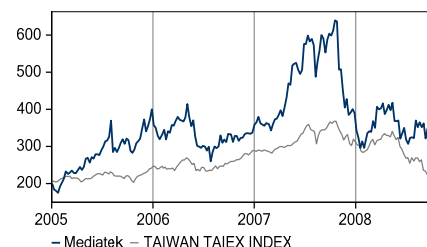
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Stock Data

Price	NT\$307.50
Price Objective	NT\$450.00 to NT\$408.00
Date Established	22-Oct-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	NT\$265.00-NT\$649.50
Mrkt Val / Shares Out (mn)	US\$10,128 / 1,073.2
Average Daily Volume	9,814,370
ML Symbol / Exchange	MDTKF / TWO
Bloomberg / Reuters	2454 TT / 2454.TW
ROE (2008E)	25.9%
Net Dbt to Eqty (Dec-2007A)	-58.8%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	70.0%



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Refer to important disclosures on page 10 to 11. Analyst Certification on Page 8. Price Objective Basis/Risk on page 8.

iQprofileSM Mediatek

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT\$ Millions)					
Sales	52,942	80,390	94,881	103,532	127,344
Gross Profit	30,654	45,204	50,654	55,906	67,492
Sell General & Admin Expense	(2,430)	(4,135)	(4,175)	(4,000)	(4,920)
Operating Profit	23,816	31,974	24,310	25,736	30,764
Net Interest & Other Income	551	3,067	447	1,460	1,460
Associates	NA	NA	NA	NA	NA
Pretax Income	24,366	35,041	24,757	27,196	32,224
Tax (expense) / Benefit	(1,794)	(1,460)	(2,526)	(1,783)	(2,113)
Net Income (Adjusted)	22,572	33,581	22,232	25,412	30,111
Average Fully Diluted Shares Outstanding	1,008	1,030	1,054	1,073	1,073

Key Cash Flow Statement Data

Net Income (Reported)	22,572	33,581	22,232	25,412	30,111
Depreciation & Amortization	1,473	1,830	4,755	4,000	4,000
Change in Working Capital	(757)	(5,267)	(1,120)	(1,020)	(1,059)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	48	(3,210)	4,899	9,271	10,837
Cash Flow from Operations	23,335	26,934	30,766	37,663	43,890
Capital Expenditure	(1,987)	(1,127)	(2,120)	(1,000)	(1,050)
(Acquisition) / Disposal of Investments	(5,469)	(7,024)	1,905	(4,000)	(2,000)
Other Cash Inflow / (Outflow)	(103)	(801)	(10,293)	(800)	(800)
Cash Flow from Investing	(7,558)	(8,952)	(10,509)	(5,800)	(3,850)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(9,554)	(14,588)	(19,786)	(17,708)	(20,895)
Cash Flow from Financing	(9,554)	(4,049)	(28,884)	(17,708)	(20,895)
Free Cash Flow	21,348	25,808	28,646	36,663	42,840
Net Debt	(38,497)	(50,579)	(41,961)	(56,116)	(75,134)
Change in Net Debt	(6,223)	(13,933)	8,597	(14,155)	(19,145)

Key Balance Sheet Data

Property, Plant & Equipment	4,815	5,922	6,883	6,970	7,300
Other Non-Current Assets	24,355	12,783	26,000	19,000	18,000
Trade Receivables	3,857	7,192	8,317	7,956	8,722
Cash & Equivalents	38,497	50,588	41,961	56,116	75,134
Other Current Assets	6,984	22,382	19,413	23,614	24,906
Total Assets	78,508	98,867	102,574	113,656	134,062
Long-Term Debt	0	9	0	0	0
Other Non-Current Liabilities	61	67	100	100	100
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	9,080	12,721	16,818	17,997	17,633
Total Liabilities	9,141	12,797	16,918	18,097	17,733
Total Equity	69,367	86,069	85,656	95,558	116,329
Total Equity & Liabilities	78,508	98,867	102,574	113,656	134,062

iQmethodSM - Bus Performance*

Return On Capital Employed	35.8%	38.8%	27.1%	27.3%	27.6%
Return On Equity	36.7%	43.2%	25.9%	28.0%	28.4%
Operating Margin	45.0%	39.8%	25.6%	24.9%	24.2%
EBITDA Margin	47.8%	42.1%	30.6%	28.7%	27.3%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.0x	0.8x	1.4x	1.5x	1.5x
Asset Replacement Ratio	1.3x	0.6x	0.4x	0.3x	0.3x
Tax Rate (Reported)	7.4%	4.2%	10.2%	6.6%	6.6%
Net Debt-to-Equity Ratio	-55.5%	-58.8%	-49.0%	-58.7%	-64.6%
Interest Cover	NA	NA	NA	NA	NA

Key Metrics

* For full definitions of iQmethodSM measures, see page 9.

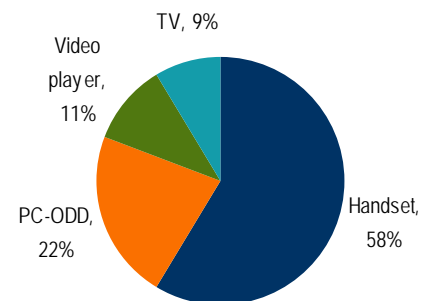
Company Description

Established in 1997, MediaTek Inc. is the largest fabless IC company in Taiwan with more than 1,000 employees (over 70% as R&D personnel). The company has developed comprehensive digital media integrated chipset solutions for CD-ROM, DVD-ROM, CD-R/RW, Combi, DVD-rewritable drives, DVD players and DVD recorders. In addition, it is making progress in handset and LCD TV chips and steadily gaining market share by providing cost-effective solutions.

Investment Thesis

We are positive on the long-term growth momentum for Mediatek on BD and EDGE phone/3G data card and believe its share price will outperform its peers'. While most negatives have been priced in, we think that the market will focus more on its outlook in 2009.

Chart 1: Mediatek 2008E product mix



Source: Merrill Lynch estimates

Stock Data

Price to Book Value 3.9x

Expecting a robust 3Q earning

Mediatek post brilliant 3Q sales of NT\$27.9bn (up 25% QoQ, 4.5% YoY). The company will post 3Q earnings on Oct 30, while there might be NT\$200m financial asset loss booked in 3Q, according to the management. Due to the better product mix and NTD depreciation, we foresee upside potential for its GM. We are looking for with an EPS of NT\$6.69, up 38.4% QoQ.

Table 1: Mediatek 3Q08 earnings preview

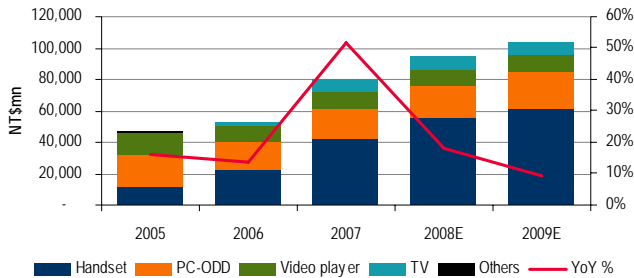
(NT\$m)	3Q08E	2Q08A	QoQ (%)	3Q07A-pre bonus	YoY (%)
Sales	27,889	22,318	25.0	26,688	4.5
Gross profit	15,010	12,010	25.0	15,229	-1.4
Operating income	7,709	5,826	32.3	11,896	-35.2
Pretax income	7,654	6,159	24.3	12,140	-37.0
Net income	7,053	5,096	38.4	11,850	-40.5
Reported EPS (NT\$)	6.69	4.84	38.4	11.51	-40.5
Gross margin (%)	53.8%	53.8%		57.1%	
Operating margin (%)	27.6%	26.1%		44.6%	
Net margin (%)	25.3%	22.8%		44.4%	

Source: Company data, Merrill Lynch estimates

4Q on track, outperform industry growth in 2009

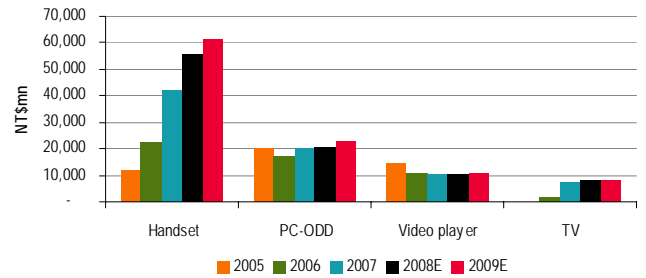
Despite the market expecting a mid-teens sequential sales decline in light of weaker tech demand and handset inventory correction in China, our latest check suggests Mediatek has a good chance to beat consensus. We have modeled for an 11% QoQ sales decline, which is in the mid-range of its five-year historical. Thanks to its clients' penetration in overseas handset markets, we expect MTK to outperform the global handset industry growth during the downturn.

Chart 2: Mediatek revenue growth momentum



Source: Company data, Merrill Lynch estimates

Chart 3: Mediatek growth momentum by product lines

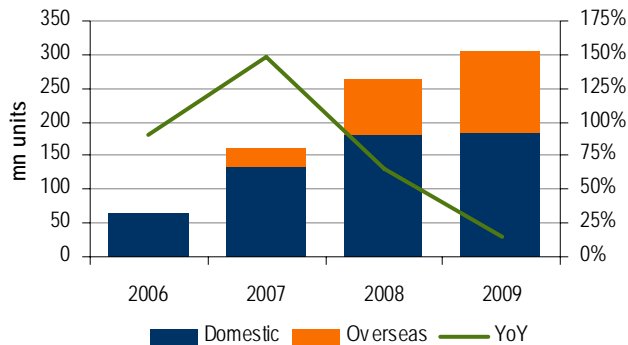


Source: Company data, Merrill Lynch estimates

Handset business should outperform industry growth

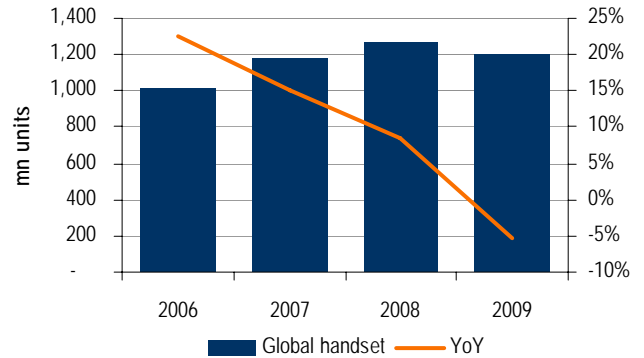
Although we hold a negative view on global handset growth in 2009, we believe Mediatek's share gain momentum will continue. We estimate the company's handset chip shipment will reach 300m units in 2009, up 15% YoY. The outperformance of Mediatek's handset business can be attributed to the 50% YoY growth registered in the overseas markets (we are expecting a flat YoY growth in China). In 2008, we estimate its overseas markets to more than double to reach 80mn units.

Chart 4: Mediatek handset IC growth momentum-Oversea market to drive 2009 growth



Source: Merrill Lynch estimates

Chart 5: Global handset shipment growth momentum



Source: Merrill Lynch estimates

Freescale and TI's quitting of handset baseband business will likely be a long-term positive for Mediatek

After Freescale's announcement it would quit the handset chip business, globally No.1 handset chipset maker Texas Instrument mentioned it is in talks with several parties to sell its merchant wireless business, which makes off-the-shelf chips for clients such as Motorola. While on the other hand, they will continue to support NOK and are staying in the APPs processor (OMAP) due to smart phone demand.

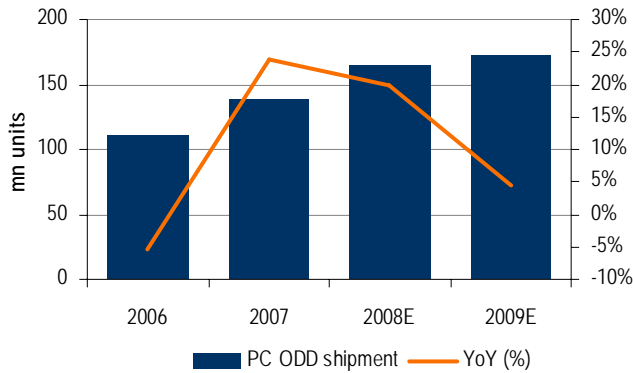
We think that this implies industry consolidation is on the way. TI's current merchant handset baseband LoCosto mainly focuses on the Asian handset makers and ODMs with annual shipment of about 120m units. As GSM/GPRS market has matured, we think it is reasonable to expect the company to exit this market and focus more on the analog IC market, which has higher growth and profitability. With the number of players in this market falling, Mediatek is set to gain and it should continue to gain more share in the global handset market. The company recently gained more market share on ZTE's GSM/GPRS product, from only ~10% previously to current 30%. We estimate MTK's handset chip domestic sales were down to 60% in 2H08 due to its clients' penetration in overseas operators like Vodafone, France Telecom and white brands in emerging markets.

Mediatek's new single-chip Blu-ray chip is ready and should help it to offset the negatives given the higher ASP

PC ODD business: Flat YoY outlook in 2009

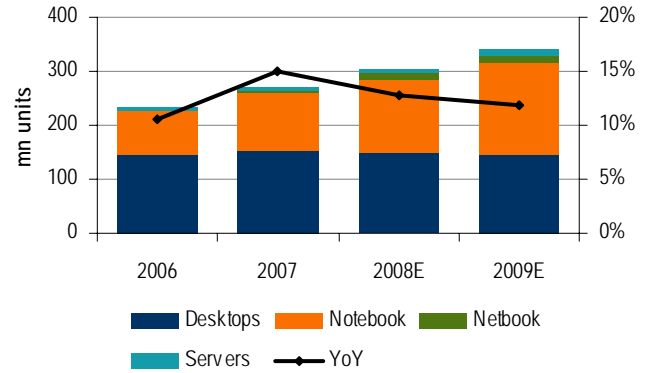
While MTK's globally leading position in ODD remains intact, the rising concerns over weaker PC demand have prompted us to factor in flat ODD business growth in 2009. Nevertheless, we expect more upside potential if Mediatek generates stronger-than-expected BD penetration momentum or/and less negative PC growth trend. According to our recent check with PC OEMs, around 20% of new projects for 2009 will be BD equipped. Mediatek's new single-chip Blu-ray chip is ready and should help the company to offset the negatives given the higher ASP. In addition, consumer BD DVD players have witnessed a significant price cut over the recent six months and we expect Mediatek to benefit from BD's take-off in 2009 as the overall environment such as software, film title and full HDTV has been ready for a while.

Chart 6: MTK's PC ODD shipment & growth momentum



Source: Merrill Lynch estimates

Chart 7: Global PC forecast & growth momentum

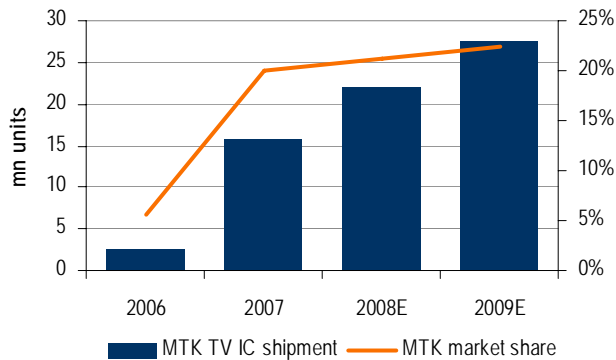


Source: Merrill Lynch estimates

TV business- Growth outlook remains intact

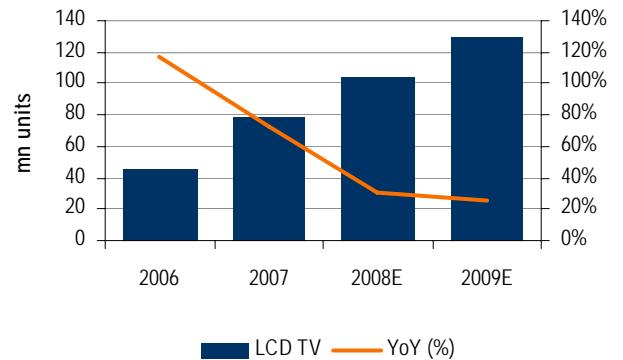
While Mediatek looks set to become the global No.1 DTV chip maker, we think it is inevitable that the company could see slower growth in its DTV business given the micro weakness. Nevertheless, its new solutions such as advanced ME/MC 120 MHz SoC are out and the company has now secured design deals with Sony via Foxconn for the 32" L4000 fighter model.

Chart 8: Mediatek TV IC shipment & growth momentum



Source: Merrill Lynch estimates

Chart 9: Global LCD TV forecast & growth momentum



Source: DisplaySearch, Merrill Lynch estimates

Reiterate Buy on solid fundamentals

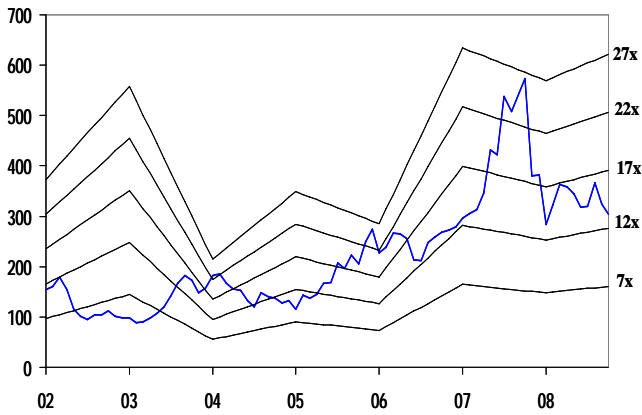
Although we slightly revised down our FY09 forecast anticipating weaker tech demand and micro headwind, we like Mediatek's solid product portfolio and intact industry position. In addition, its quality balance sheet as well as strong cash on hand should also provide good support during the downturn. Mediatek's net cash/market cap is 18%, FCF/share is NT\$27, FCF yield 9%. We reiterate our Buy rating on the company with a PO of NT\$408, which is based on 17x FY09E EPS (from previous NT\$450, 19x FY08/09E average EPS).

Table 2: Mediatek- earnings revision

NT\$m	2008E			2009E		
	Previous	New	Change	Previous	New	Change
Sales	94,315	94,881	0.6%	106,193	103,532	-2.5%
Gross profit	50,349	50,654	0.6%	57,344	55,906	-2.5%
Operating income	24,140	24,310	0.7%	26,708	25,736	-3.6%
Net income	22,487	22,232	-1.1%	26,807	25,412	-5.2%
EPS	21.34	21.10	-1.1%	24.98	23.68	-5.2%
Gross margin	53.4%	53.4%		54.0%	54.0%	
Operating margin	25.6%	25.6%		25.2%	24.9%	
Net margin	23.8%	23.4%		25.2%	24.5%	

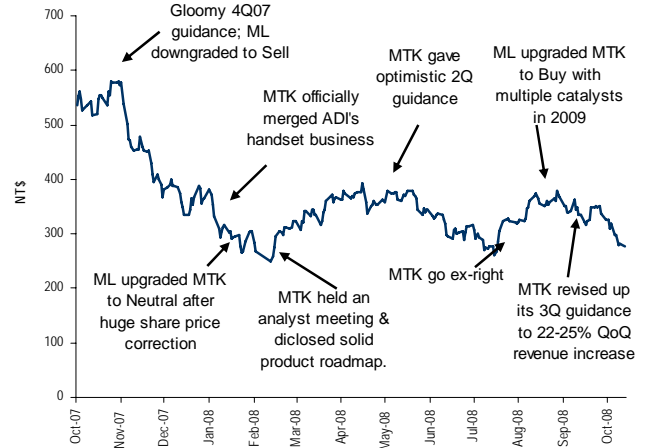
Source: Merrill Lynch estimates

Chart 10: Mediatek bonus adjusted PE band



Source: TEJ, Merrill Lynch estimates

Chart 11: Mediatek share price & key events



Source: TEJ, Merrill Lynch estimates

Table 3: Asian fabless valuation comparison

Companies	ML Ticker	ML Rating	Stock price 20 Oct 2008	EPS		PER		ROIC		ROE		Net cash Market cap
				2008E	2009E	2008	2009	2008E	2009E	2008E	2009E	
Realtek	RLTOF	C-3-7 Underperform	57.9	3.7	5.4	15.5	10.7	15.9%	12.9%	9.5%	11.8%	31%
Sunplus	SNPLF	C-3-7 Underperform	13.7	1.1	1.1	11.9	12.4	1.5%	-0.4%	5.2%	5.1%	17%
Mediatek	MDTKF	C-1-7 Buy	304.5	21.1	23.7	14.4	12.9	27.0%	26.1%	24.6%	25.5%	18%
Novatek	NVKMF	C-3-7 Underperform	40.8	7.4	8.0	5.5	5.1	19.2%	17.2%	24.1%	24.4%	37%
Faraday	FDYTF	C-3-8 Underperform	39.5	2.0	1.8	19.4	22.0	7.9%	8.6%	11.2%	10.1%	14%
Richtek	RHTKF	C-3-7 Underperform	169.5	11.0	11.0	15.4	15.4	35.8%	30.3%	34.4%	27.8%	10%
Himax (US\$)	HIMX	C-3-7 Underperform	2.4	0.6	0.4	4.2	5.5	21.4%	13.8%	22.2%	14.4%	22%
Spreadtrum (US\$)	SPRD	C-3-9 Underperform	1.5	-0.1	0.0	NM	NM	-4.5%	-0.8%	-3.5%	0.1%	101%
Average						12.3	12.0	15.5%	13.5%	16.0%	14.9%	31%

Source: BBG, Merrill Lynch estimates

Table 4: Mediatek quarterly P&L

NT\$m; %	1Q08	2Q08	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	FY2007	FY2008E	FY2009E
Sales	19,378	22,318	27,889	25,296	20,789	23,157	29,336	30,250	80,390	94,881	103,532
Cost of Sales	(9,276)	(10,309)	(12,879)	(11,763)	(9,667)	(10,699)	(13,436)	(13,824)	(35,186)	(44,227)	(47,625)
Gross Profit	10,102	12,010	15,010	13,533	11,122	12,459	15,900	16,426	45,204	50,654	55,906
Operating Expenses	(5,991)	(6,184)	(7,301)	(6,868)	(6,684)	(7,235)	(8,064)	(8,189)	(13,230)	(26,344)	(30,171)
Operating Profits	4,111	5,826	7,709	6,666	4,438	5,224	7,836	8,237	31,974	24,310	25,736
Non-operating Income	174	333	(55)	(5)	325	345	395	395	3,067	447	1,460
Pre-tax Profit	4,285	6,159	7,654	6,661	4,763	5,569	8,231	8,632	35,041	24,757	27,196
Tax Expense	(255)	(1,063)	(600)	(607)	(312)	(365)	(540)	(566)	(1,460)	(2,526)	(1,783)
Net Profit	4,030	5,096	7,053	6,053	4,451	5,204	7,691	8,066	33,581	22,232	25,412
EPS (NT\$)	3.8	4.8	6.7	5.7	4.1	4.8	7.2	7.5	32.6	21.1	23.7
% of revenue											
Gross Margin	52.1%	53.8%	53.8%	53.5%	53.5%	53.8%	54.2%	54.3%	56.2%	53.4%	54.0%
Operating Expense	-30.9%	-27.7%	-26.2%	-27.1%	-32.2%	-31.2%	-27.5%	-27.1%	-16.5%	-27.8%	-29.1%
Operating Margin	21.2%	26.1%	27.6%	26.4%	21.3%	22.6%	26.7%	27.2%	39.8%	25.6%	24.9%
Pre-tax Margin	22.1%	27.6%	27.4%	26.3%	22.9%	24.0%	28.1%	28.5%	43.6%	26.1%	26.3%
Net Margin	20.8%	22.8%	25.3%	23.9%	21.4%	22.5%	26.2%	26.7%	41.8%	23.4%	24.5%
Tax Rate	-6.0%	-17.3%	-7.8%	-9.1%	-6.6%	-6.6%	-6.6%	-6.6%	-4.2%	-10.2%	-6.6%
Sequential Growth											
Sales	-4.8%	15.2%	25.0%	-9.3%	-17.8%	11.4%	26.7%	3.1%	51.8%	18.0%	9.1%
Cost of Sales	0.5%	11.1%	24.9%	-8.7%	-17.8%	10.7%	25.6%	2.9%	57.9%	25.7%	7.7%
Gross Profit	-9.4%	18.9%	25.0%	-9.8%	-17.8%	12.0%	27.6%	3.3%	47.5%	12.1%	10.4%
Operating Expense	27.7%	3.2%	18.1%	-5.9%	-2.7%	8.2%	11.5%	1.5%	93.5%	99.1%	14.5%
Operating Profit	-36.3%	41.7%	32.3%	-13.5%	-33.4%	17.7%	50.0%	5.1%	34.3%	-24.0%	5.9%
Non-operating Income	-42.0%	91.4%	-116.5%	-90.9%	na	6.2%	14.5%	0.0%	na	-85.4%	na
Pre-Tax Profit	-36.6%	43.7%	24.3%	-13.0%	-28.5%	16.9%	47.8%	4.9%	43.8%	-29.3%	9.8%
Tax Expense	-42.4%	316.9%	-43.5%	1.2%	-48.6%	16.9%	47.8%	4.9%	-18.6%	73.0%	-29.4%
Net Profit	-36.2%	26.5%	38.4%	-14.2%	-26.5%	16.9%	47.8%	4.9%	48.8%	-33.8%	14.3%
YoY Growth											
Sales	29.8%	21.2%	4.5%	24.2%	7.3%	3.8%	5.2%	19.6%	51.8%	18.0%	9.1%
Cost of Sales	45.6%	26.9%	12.4%	27.4%	4.2%	3.8%	4.3%	17.5%	57.9%	25.7%	7.7%
Gross Profit	18.1%	16.7%	-1.4%	21.4%	10.1%	3.7%	5.9%	21.4%	47.5%	12.1%	10.4%
Operating Expense	150.5%	119.8%	119.1%	46.4%	11.6%	17.0%	10.4%	19.2%	93.5%	99.1%	14.5%
Operating Profit	-33.3%	-22.1%	-35.2%	3.2%	8.0%	-10.3%	1.7%	23.6%	34.3%	-24.0%	5.9%
Non-operating Income	-89.3%	-62.7%	-122.5%	-101.7%	86.8%	3.6%	na	na	na	-85.4%	na
Pre-Tax Profit	-45.0%	-26.4%	-37.0%	-1.4%	11.2%	-9.6%	7.5%	29.6%	43.8%	-29.3%	9.8%
Tax Expense	na	38.8%	107.0%	37.1%	22.5%	-65.6%	-10.1%	-6.8%	-18.6%	73.0%	-29.4%
Net Profit	-48.6%	-33.0%	-40.5%	-4.1%	10.4%	2.1%	9.0%	33.3%	48.8%	-33.8%	14.3%

Source: Company data, Merrill Lynch estimates

Price objective basis & risk

Mediatek (MDTKF)

Our PO of NT\$408 is based on 17x FY09E EPS, which is around the middle of Mediatek's historical trading range. Its share price has corrected to its historical trough level and we believe most of the negatives are already priced in and investors will focus more on its long-term growth momentum. We expect its share price to outperform its peers', given the positive 2009 outlook. Our PO is further supported by our long-term return on operating capital fair value model. Downside risks: (1) Weak sell-through in China handset market, (2) Stronger-than-expected ASP erosion and (3) Failure to ramp up its new product lines.

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 - Semiconductor Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY	Mediatek	MDTKF	2454 TT	Laura Chen
	Nan Ya PCB Corporation	NANYF	8046 TT	Daniel Heyler
	Siliconware	SPIL	SPIL US	Daniel Heyler
	Siliconware	SPILF	2325 TT	Daniel Heyler

APR - Semiconductor Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
NEUTRAL				
	Advanced Semi	ASX	ASX US	Daniel Heyler
	Advanced Semiconductor Engineering	ASXCF	2311 TT	Daniel Heyler
	Chartered Semi.	CHRT	CHRT US	Daniel Heyler
	Chartered Semi.	CHRTF	CSM SP	Daniel Heyler
	NEC Electronics	NELTF	6723 JP	Simon Dong-je Woo, CFA
	Taiwan Semi	TSM	TSM US	Daniel Heyler
	Taiwan Semi	TSMWF	2330 TT	Daniel Heyler
	Toshiba	TOSBF	6502 JP	Simon Dong-je Woo, CFA
	VIA Tech	VIATF	2388 TT	Daniel Heyler
UNDERPERFORM				
	ASM Pacific	ASMFV	522 HK	Daniel Heyler
	Chipbond Technol	CPBTF	6147 TT	Daniel Heyler
	Elpida Memory	ELPDF	6665 JP	Simon Dong-je Woo, CFA
	Faraday	FDYTF	3035 TT	Laura Chen
	Himax Techno-ADR	HIMX	HIMX US	Laura Chen
	Hynix	HXSCF	000660 KS	Simon Dong-je Woo, CFA
	Inotera Memories	INMFF	3474 TT	Simon Dong-je Woo, CFA
	Kinsus Interconnect Technology	KNSUF	3189 TT	Daniel Heyler
	Nanya Tech Corp.	NNYAF	2408 TT	Simon Dong-je Woo, CFA
	Novatek	NVKMF	3034 TT	Laura Chen
	Phoenix Precision	PHXPF	2446 TT	Daniel Heyler
	Powerchip	PWSMF	5346 TT	Simon Dong-je Woo, CFA
	ProMOS Tech	PTGSF	5387 TT	Simon Dong-je Woo, CFA
	Realtek	RLTQF	2379 TT	Laura Chen
	Richtek Technology	RHTKF	6286 TT	Laura Chen
	Samsung Elec	SSNLF	005930 KS	Simon Dong-je Woo, CFA
	Samsung Elec -G	SSNHY	SMSN LI	Simon Dong-je Woo, CFA
	SMIC	SIUIF	981 HK	Daniel Heyler
	SMIC	SMI	SMI US	Daniel Heyler
	Spreadtrum-ADR	SPRD	SPRD US	Daniel Heyler
	Sunplus	SNPLF	2401 TT	Laura Chen
	UMC	UMC	UMC US	Daniel Heyler
	UMC	UMELF	2303 TT	Daniel Heyler

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	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

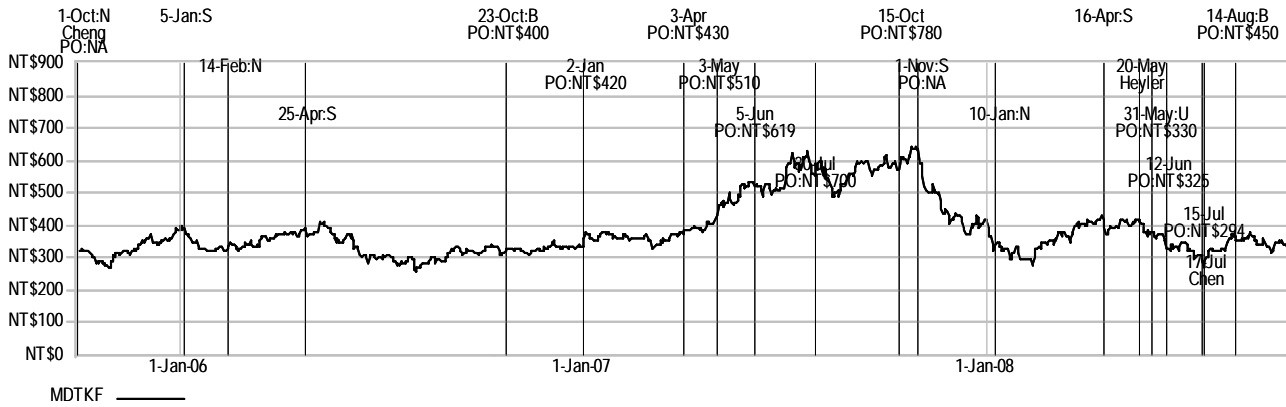
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Important Disclosures

MDTKF 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: Technology Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	113	42.97%	Buy	21	20.59%
Neutral	60	22.81%	Neutral	12	22.22%
Sell	90	34.22%	Sell	13	15.66%

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.

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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%

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