

Another disappointing quarter; Underperform



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Further downside risks; reiterate Underperform

Mitic released disappointing 3Q08 preliminary pre-tax profits of NT\$555mn (-2% QoQ; -70% YoY), ~40% below our estimates and BBG consensus. Given the weaker consumer spending ahead and poor 3Q results, we expect further downside risks to our current 2008/09 earning forecasts and PO (NT\$17.55). Thus, we reiterate our Underperform rating, despite its already <1x P/B valuation.

3Q result disappointing; Mitac's sales outlook flat QoQ

Mitic's 3Q08 OP margin has declined to 2.3% (vs 2.9% in 2Q08), due to delay in shipment of new GPS/PND models and continued high OP spending on marketing/promotion. US and UK channel feedbacks are more negative than positive, and Mitac's management's sales guidance for 4Q08 is flat QoQ, with no Christmas sales pick-up, after its disappointing 3Q top-line growth (merely +4% QoQ vs original double-digit growth guidance).

8mn target seems stretched, with ASP/margin pressure

Mitic's GPS unit target of 8mn for 2008 (only 4.5-5.0mn shipments for 1Q-3Q) still seems too stretched to us, as 2H08 momentum is slowing. In addition, larger pricing competition from peers (i.e. Garmin's ASP drops 30% YoY in 2008) would erode Mitac's pricing and margins further. We are reviewing our model and expect further ~20% downside risks to our 2008/09E EPS.

No sign of recovery in 2009

Mitic's management has publicly stated that the company targets a GPS unit growth of 30% for 2009 (10-20% GPS revenue growth), helped by the contribution of connected PNDs and 3.5G GPS phones. However, we foresee downside risks, given the slowing growth of the GPS/PND market and fierce competition from existing smartphone players.

Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	5,384	5,648	2,986	2,952	3,038
EPS (Pre Bonus)	3.51	3.68	2.04	2.01	2.07
EPS (Post Bonus)	3.03	3.53	2.05	2.03	2.09
EPS Change (YoY)	10.3%	16.7%	-41.9%	-1.2%	2.9%
Dividend / Share	1.14	1.33	0.759	0.759	0.759
Free Cash Flow / Share	2.75	3.31	1.07	1.47	0.877

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

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	4.40x	3.77x	6.48x	6.56x	6.38x
Dividend Yield	8.56%	9.99%	5.71%	5.71%	5.71%
Free Cash Flow Yield*	20.65%	24.90%	8.06%	11.09%	6.59%

* For full definitions of *iQmethod*SM measures, see page 8.

Stock Data

Price	NT\$13.30
Price Objective	NT\$17.55
Date Established	21-Jul-2008
Investment Opinion	C-3-8
Volatility Risk	HIGH
52-Week Range	NT\$11.45-NT\$41.25
Mrkt Val / Shares Out (mn)	US\$627 / 1,535.0
Average Daily Volume	9,855,317
ML Symbol / Exchange	MTCXF / TAI
Bloomberg / Reuters	2315 TT / 2315.TW
ROE (2008E)	8.7%
Net Dbt to Eqty (Dec-2007A)	-4.2%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	60.0%



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iQprofileSM Mitac International

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT\$ Millions)					
Sales	82,882	82,074	70,698	72,698	75,802
Gross Profit	9,080	10,131	7,903	7,931	8,187
Sell General & Admin Expense	(2,485)	(3,788)	(3,634)	(3,708)	(3,873)
Operating Profit	4,958	4,575	2,343	2,224	2,267
Net Interest & Other Income	1,172	1,918	1,139	1,249	1,307
Associates	NA	NA	NA	NA	NA
Pretax Income	6,131	6,492	3,482	3,473	3,574
Tax (expense) / Benefit	(747)	(844)	(496)	(521)	(536)
Net Income (Adjusted)	5,384	5,648	2,986	2,952	3,038
Average Fully Diluted Shares Outstanding	1,535	1,535	1,535	1,535	1,535

Key Cash Flow Statement Data

Net Income (Reported)	5,384	5,648	2,986	2,952	3,038
Depreciation & Amortization	487	569	560	455	378
Change in Working Capital	(1,317)	145	(748)	121	(741)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(176)	(1,128)	(1,010)	(1,119)	(1,177)
Cash Flow from Operations	4,378	5,233	1,788	2,409	1,498
Capital Expenditure	(163)	(150)	(141)	(145)	(152)
(Acquisition) / Disposal of Investments	47	(1,632)	(816)	(1,224)	(1,020)
Other Cash Inflow / (Outflow)	(293)	(31)	(213)	0	0
Cash Flow from Investing	(410)	(1,812)	(1,171)	(1,369)	(1,171)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(1,633)	(1,822)	(1,900)	(1,045)	(1,033)
Cash Flow from Financing	(516)	(1,620)	(2,443)	(1,545)	(2,033)
Free Cash Flow	4,215	5,084	1,647	2,264	1,346
Net Debt	509	(1,429)	(359)	(354)	352
Change in Net Debt	(2,713)	(2,136)	1,283	5	707

Key Balance Sheet Data

Property, Plant & Equipment	2,220	2,240	1,821	1,511	1,285
Other Non-Current Assets	19,454	24,137	25,963	28,306	30,502
Trade Receivables	16,585	17,108	15,108	15,934	16,614
Cash & Equivalents	8,369	9,972	8,359	7,854	6,148
Other Current Assets	11,164	8,822	9,992	9,375	9,726
Total Assets	57,792	62,278	61,244	62,980	64,276
Long-Term Debt	5,000	1,500	1,500	1,500	1,500
Other Non-Current Liabilities	955	597	597	597	597
Short-Term Debt	3,878	7,043	6,500	6,000	5,000
Other Current Liabilities	20,244	19,176	17,598	17,928	18,219
Total Liabilities	30,077	28,316	26,195	26,025	25,316
Total Equity	27,716	33,962	35,049	36,955	38,960
Total Equity & Liabilities	57,792	62,278	61,244	62,980	64,276

iQmethodSM - Bus Performance*

Return On Capital Employed	12.8%	10.3%	4.9%	4.5%	4.5%
Return On Equity	21.3%	18.3%	8.7%	8.2%	8.0%
Operating Margin	6.0%	5.6%	3.3%	3.1%	3.0%
EBITDA Margin	6.6%	6.3%	4.1%	3.7%	3.5%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.8x	0.9x	0.6x	0.8x	0.5x
Asset Replacement Ratio	0.3x	0.3x	0.3x	0.3x	0.4x
Tax Rate (Reported)	12.2%	13.0%	14.2%	15.0%	15.0%
Net Debt-to-Equity Ratio	1.8%	-4.2%	-1.0%	-1.0%	0.9%
Interest Cover	24.4x	22.6x	19.5x	20.3x	20.6x

Key Metrics

Analyst ROIC	10.9%	9.7%	4.6%	4.3%	4.2%
Analyst ROE	17.4%	16.7%	8.3%	7.8%	7.6%
Stock comp adj EPS	3.03	3.53	2.05	2.03	2.09
Stock comp adj P/E	4.40x	3.77x	6.48x	6.56x	6.38x

* For full definitions of iQmethodSM measures, see page 8.

Company Description

In addition to its solid lines in both desktop PC and server, Mitac has diversified into the largest GPS/PND (Personal Navigation Device) provider in Taiwan over the past two years. Its key customers include Dell for DT PC and server, Sun and HP for server, and Medion (Germany), Magellan (US) and Mio (brand under its group in Taiwan) for GPS. Its key affiliates include Mitac Technology (for notebook PC) and Synnex USA (IC/system distributor).

Investment Thesis

We see headwinds ahead in Mitac's business, given the cautious GPS/PND outlook in US/Europe, increasing competition from leading players TomTom/Garmin, and longer transitions in the DT PC and server business. In addition, we expect Mitac's margins to face substantial downward pressure in 2008-09 as its cost-efficiencies ability will be unlikely to keep pace with ASP erosion. Given this, we believe Mitac's share price will underperform the hardware sector over the next 12 months.

Stock Data

Price to Book Value 0.6x

Disappointing 3Q results

Mitac released disappointing 3Q08 preliminary pre-tax profits of NT\$555mn (-2% QoQ; -70% YoY), ~40% below our estimates as well as BBG consensus. Mitac's 3Q OP margin has further deteriorated to 2.3% (vs 2.9% in 2Q08; 3.2% in 1H08), due to delay in the shipment of new GPS/PND models and continued high marketing/promotion expenses.

Table 1: Mitac: 3Q08 results vs. ML estimates

NT\$m	3Q08(A)	QoQ%	YoY%	3Q08(E)	Diff %	ML Comment
Sales	16,288	4%	-28%	18,710	-13%	Weaker GPS/PND shipments, due to delay of new models
Operating Profit	377	-18%	-76%	710	-47%	GM deteriorated and continued high Opex
Pre-tax Profit	555	-2%	-70%	989	-44%	-
EPS (NT\$) *	0.34	9%	-68%	0.59	-42%	Tax credit lead to low-than-expected tax

Source: Mitac, Merrill Lynch estimates

* calculated by current outstanding shares of 1,535mn shares

Negative data from recent retailer comments

The table below shows what we have seen in the reporting season so far, and overall there have been more negatives than positives. In particular, Halfords was cautious (a contrast to its upbeat comments when we spoke to them last quarter), and Circuit City flagged a slowdown in the US (although they have company-specific issues also).

Table 2: What we've seen so far from the channel

	Date	Vendor	Region	What they said THIS quarter	What they said LAST quarter	Our view
✗	09-Sep	BRC Survey (August)	UK	Electricals growth weaker than July. Satnav weakened	n/a	Negative datapoint.
✓	11-Sep	Home Retail Group (Argos)	UK	Consumer electronics growth lower than previous Q. Satnav showed positive growth in the quarter	Good growth in Satnav	Value growth is a positive given the UK market is one of the most mature markets.
✗	15-Sep	Ingram Micro	US/Europe	Broad-based softness in September (not Satnav specific)	n/a	Negative comment (although no Satnav-specific commentary)
✓	16-Sep	Best Buy	US	Consumer sales +2% (+0.6% has Q). Double-digit value growth in GPS.	Solid double-digit growth in GPS	Positive, particularly in light of US consumers.
✗	26-Sep	Circuit City (CC)	US	Sales of navigation products decreased high single-digit	Navigation sales increased low single-digit	Negative datapoint, although CC also has company-specific problems (just lost CEO)
✗	02-Oct	Halfords	UK	Oversupply in 3Q led to discounting; situation normalized heading into 4Q	Confident about the launch of new TomTom products	Negative datapoint.
✗	02-Oct	Wolfson	Global	Seeing material reduction in 4Q order intake (supply Tom2/GRMN audio chips)	n/a	GPS is 10-15% of the WLF business; unclear whether this contributed to warning but the company says the weakness is broad-based

Source: Company data, Merrill Lynch research

Chart 1: Mitac: Bonus-adjusted P/E bands



Source: Merrill Lynch estimates, TEJ

Chart 2: Mitac: P/B bands



Source: Merrill Lynch estimates, TEJ

Table 3: Valuation comparison table

	ML Symbol	ML Rating	Price 20-Oct-08	Mkt Cap (US\$m)	EPS (Local)		EPG		PER(x)		ROE (%)		Cash Yield	Price YTD
					2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E		
Acer	ASIYF	C-1-7 Buy	46.6	3,715	5.60	6.84	11%	22%	8.3	6.8	18%	20%	8%	-20%
Asustek	AKCPF	C-1-7 Buy	51.5	7,054	6.51	7.42	-9%	14%	7.9	6.9	15%	15%	5%	-39%
Quanta	QUCPF	C-3-7 Underpe	34.8	4,097	5.00	4.50	-1%	-10%	7.0	7.7	19%	16%	10%	-15%
HTC	HTCCF	C-2-7 Neutral	438.0	10,667	40.88	49.58	7%	21%	10.7	8.8	51%	55%	7%	1%
Wistron	WICOF	C-2-7 Neutral	32.0	1,565	4.80	5.50	10%	15%	6.7	5.8	21%	22%	9%	-40%
IAC	IVAPF	C-2-8 Neutral	30.5	504	5.51	5.89	-22%	7%	5.5	5.2	20%	20%	14%	-43%
Hon Hai	HNHAF	C-2-7 Neutral	87.0	20,807	8.91	10.96	-15%	23%	9.8	7.9	16%	18%	2%	-48%
Mitac	MTCXF	C-3-8 Underpe	13.3	659	2.05	2.03	-42%	-1%	6.5	6.6	9%	8%	6%	-53%
Garmin	GRMN	C-3-7 Underpe	24.3	5,167	3.89	3.90	2%	0%	6.3	6.2	33%	27%	-	-75%
TomTom	TMOAF	C-1-9 Buy	7.1	1,114	0.69	1.06	-75%	54%	10.3	6.7	10%	11%	-	-86%

Source: Merrill Lynch estimates, BBG

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Table 4: Mitac – income statement (parent)

NT\$mnn	1Q07A	2Q07A	3Q07A	4Q07A	1Q08A	2Q08P	3Q08E	4Q08E	2006A	2007A	2008E	2009E	2010E
Sales	17,898	20,245	22,649	21,282	15,132	15,586	18,710	21,270	82,882	82,074	70,698	72,698	75,802
Cost of Sales	(16,050)	(17,832)	(19,380)	(18,681)	(13,473)	(13,926)	(16,503)	(18,892)	(73,802)	(71,943)	(62,794)	(64,767)	(67,615)
Gross Profit	1,847	2,413	3,269	2,601	1,659	1,660	2,207	2,378	9,080	10,130	7,903	7,931	8,187
Operating Expense	(976)	(1,252)	(1,679)	(1,648)	(1,142)	(1,262)	(1,497)	(1,659)	(4,121)	(5,555)	(5,560)	(5,707)	(5,920)
Oper. Exp. Promotion	(451)	(675)	(1,117)	(978)	(618)	(701)	(842)	(936)	(2,036)	(3,221)	(3,097)	(3,199)	(3,335)
Operating Exp.-ADM	(131)	(132)	(136)	(167)	(114)	(125)	(150)	(149)	(448)	(566)	(537)	(509)	(538)
Operat. Expense-R&D	(394)	(445)	(426)	(503)	(410)	(436)	(505)	(574)	(1,636)	(1,768)	(1,926)	(1,999)	(2,047)
Operating Profit	871	1,161	1,590	953	517	397	710	719	4,958	4,575	2,343	2,224	2,267
Non-operating Income	327	414	288	887	308	216	279	336	1,170	1,917	1,139	1,249	1,307
Net Interest Income	(20)	(1)	(1)	(4)	14	5	5	5	(83)	(26)	29	30	30
Investment Income	303	380	259	886	247	218	244	301	1,269	1,829	1,010	1,119	1,177
Disposal Gain	-	-	-	-	-	-	-	-	1	-	-	-	-
Exchange Gain	19	17	27	25	(29)	-	-	-	36	88	(29)	-	-
Others	25	18	3	(20)	76	(7)	30	30	(53)	26	129	100	100
Pre-tax Profit	1,198	1,575	1,879	1,840	825	614	989	1,055	6,129	6,492	3,482	3,473	3,574
Tax Expense	(156)	(204)	(244)	(239)	(107)	(123)	(129)	(137)	(747)	(843)	(496)	(521)	(536)
Net Profit	1,042	1,371	1,634	1,601	717	491	860	918	5,382	5,649	2,986	2,952	3,038
Not Profit- Bonus adj	948	1,248	1,487	1,457	717	491	860	918	4,405	5,141	2,986	2,952	3,038
EPS (NT\$)	0.72	0.94	1.12	1.10	0.49	0.34	0.59	0.63	3.70	3.88	2.15	2.12	2.18
EPS-Bonus adj (NT\$)	0.65	0.86	1.02	1.00	0.49	0.34	0.59	0.63	3.03	3.53	2.05	2.03	2.09
Gross Margin	10.3%	11.9%	14.4%	12.2%	11.0%	10.6%	11.8%	11.2%	11.0%	12.3%	11.2%	10.9%	10.8%
Operating Expense	-5.5%	-6.2%	-7.4%	-7.7%	-7.5%	-8.1%	-8.0%	-7.8%	-5.0%	-6.8%	-7.9%	-7.9%	-7.8%
Operating Margin	4.9%	5.7%	7.0%	4.5%	3.4%	2.5%	3.8%	3.4%	6.0%	5.6%	3.3%	3.1%	3.0%
Pre-tax Margin	6.7%	7.8%	8.3%	8.6%	5.5%	3.9%	5.3%	5.0%	7.4%	7.9%	4.9%	4.8%	4.7%
Net Margin	5.8%	6.8%	7.2%	7.5%	4.7%	3.2%	4.6%	4.3%	6.5%	6.9%	4.2%	4.1%	4.0%
Tax Rate	-13%	-13%	-13%	-13%	-13%	-20%	-13%	-13%	-12%	-13%	-14%	-15%	-15%
Net Margin- Bonus Adj	5.3%	6.2%	6.6%	6.8%	4.7%	3.2%	4.6%	4.3%	5.3%	6.3%	4.2%	4.1%	4.0%
Bonus Dilution	9%	9%	9%	9%	0%	0%	0%	0%	18%	9%	0%	0%	0%
Sequential Growth													
Sales	-27%	13%	12%	-6%	-29%	3%	20%	14%	12%	-1%	-14%	3%	4%
Cost of Sales	-26%	11%	9%	-4%	-28%	3%	19%	14%	10%	-3%	-13%	3%	4%
Gross Profit	-37%	31%	35%	-20%	-36%	0%	33%	8%	25%	12%	-22%	0%	3%
Operating Expense	-26%	28%	34%	-2%	-31%	11%	19%	11%	16%	35%	0%	3%	4%
Operating Profit	-47%	33%	37%	-40%	-46%	-23%	79%	1%	33%	-8%	-49%	-5%	2%
Non-operating Income	-2%	27%	-30%	208%	-65%	-30%	29%	20%	-36%	64%	-41%	10%	5%
Pre-Tax Profit	-39%	32%	19%	-2%	-55%	-26%	61%	7%	11%	6%	-46%	0%	3%
Tax Expense	-34%	31%	20%	-2%	-55%	15%	5%	7%	26%	13%	-41%	5%	3%
Net Profit	-40%	32%	19%	-2%	-55%	-32%	75%	7%	9%	5%	-47%	-1%	3%
YoY%													
Sales	-3%	3%	13%	-14%	-15%	-23%	-17%	0%	12%	-1%	-14%	3%	4%
Cost of Sales	-4%	2%	9%	-14%	-16%	-22%	-15%	1%	10%	-3%	-13%	3%	4%
Gross Profit	4%	15%	45%	-12%	-10%	-31%	-32%	-9%	25%	12%	-22%	0%	3%
Operating Expense	25%	39%	49%	25%	17%	1%	-11%	1%	16%	35%	0%	3%	4%
Operating Profit	-12%	-4%	40%	-42%	-41%	-66%	-55%	-25%	33%	-8%	-49%	-5%	2%
Non-operating Income	62%	36%	-13%	166%	-6%	-48%	-3%	-62%	-36%	64%	-41%	10%	5%
Pre-Tax Profit	1%	4%	28%	-6%	-31%	-61%	-47%	-43%	11%	6%	-46%	0%	3%
Tax Expense	-13%	30%	39%	1%	-31%	-40%	-47%	-43%	26%	13%	-41%	5%	3%
Net Profit	3%	1%	27%	-7%	-31%	-64%	-47%	-43%	9%	5%	-47%	-1%	3%
Net Profit- Bonus Adj	15%	13%	41%	3%	-24%	-61%	-42%	-37%	10%	17%	-42%	-1%	3%

Source: Merrill Lynch estimates, Mitac

Price objective basis & risk

Mitac Intl (MTCXF)

Our PO of NT\$17.55 is based on 9x 2008/09E bonus-adjusted EPS, which is below its Taiwan hardware downstream peers' average P/E. We believe Mitac will be derated by the market to its P/E trough cycle between 2004-2008, given its downward ROE and declining earnings for 2008-09. Upside risks to our PO are: (1) faster ramping up and larger contribution from new GPS products and (2) a significant recovery in the IT business. Downside risks to our PO are: (1) further GPS/PND market slowdown, and (2) larger GPS/PND share loss to competitors (ie, TomTom/Garmin).

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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
	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	CMPLF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su

20 October 2008

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
	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	LGAEF	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
	Oisda Corp	BNOCF	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
UNDERPERFORM				
	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
	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	QUCCPF	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

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

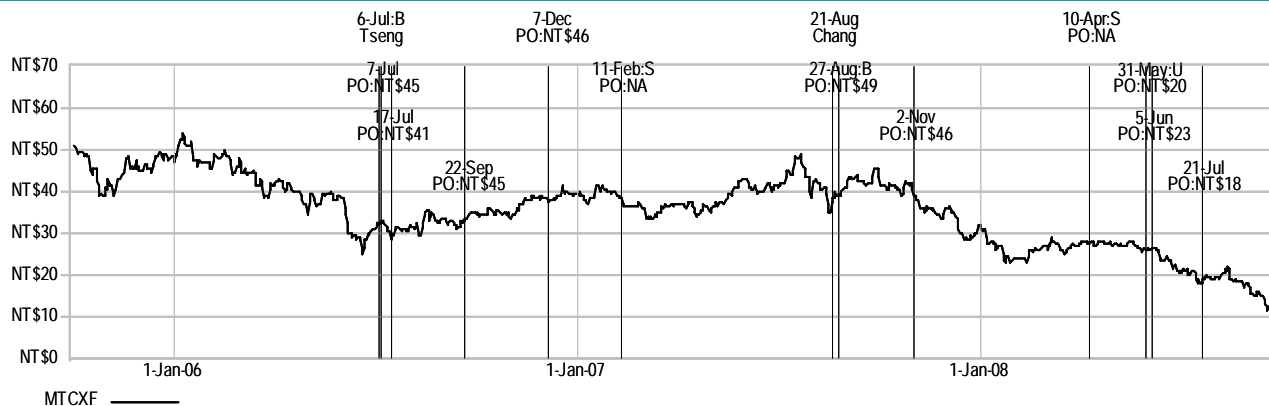
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Important Disclosures

MTCXF 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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