

Asia Taiwan

Technology Hardware & Equipment

Deutsche Bank



22 October 2008

Motech Industries Inc

Reuters: 6244.TWO Bloomberg: 6244 TT Exchange: TWO Ticker: 6244

Attractive risk/reward; retain Buy

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Better margin outlook

We raise our EPS forecast by 8% in 2008 to reflect better 3Q08 results but reduce EPS forecasts by 15% for 2009 and 13% for 2010 as we assume weaker demand due to the global credit crunch and lower margins due to delayed mass production of AE Polysilicon. The stock trades at 9x our revised 2009E EPS. We believe the stock is undervalued as its 2009-2010E earnings CAGR of 36% is higher than the 10-20% for its peers which trade at 10-12x 2009E EPS. We reiterate Buy.

3Q08 above expectation

GM improved 1.2ppt to 15.6% in 3Q08, higher than our estimate of 14.3% due to the higher portion of long-term contract polysilicon (35-40% in 3Q08 vs. 25-30% in 2Q08) and better product mix with higher 6-inch wafer portion (60% in 3Q08 vs. 55% in 2Q08). Forex gain of NT\$150-180m was higher than our estimate of NT\$46m in 3Q08 due to the NTD depreciation of 2.5% QoQ. EPS was NT\$3.67 in 3Q08, above our estimate of NT\$3.06 and consensus of NT\$3.26.

Sub-seasonal 4Q08, more moderate demand growth for 2009

Management did not give any guidance for 4Q08. We expect sales to grow 3-5% QoQ in 4Q08 (lower than the 2003-07 average of 15%) due to demand slowdown in the Spain market. GM may stay flat in 4Q08 as more long-term contract polysilicon should offset the negative impact of ASP decline. The mass production schedule of AE Polysilicon will likely be delayed from 1H09 to 2H09 due to the longer environmental evaluation by the government. Management expects over 10% solar cell ASP YoY decline in 2009 and the global financial crisis to have a negative impact on the end demand in 2009.

Maintain Buy; lower TP to NT\$190

Our revised TP of NT\$190 (from NT\$250) is based on 14x US GAAP 2009E EPS, which is below the 20x during 2004-07. We believe this is merited by its 2009-10E earnings CAGR of 36%, which is below the 2004-07 CAGR of 77%. Downside risks include slower ramp-up in internal ingot/wafer and polysilicon capacity, NTD appreciation, and cancellation of incentives.

Forecasts and ratios

Year End Dec 31	2006A	2007A	2008E	2009E	2010E
Sales (TWDm)	8,099.5	15,577.6	24,699.0	28,988.0	38,627.7
EBITDA (TWDm)	2,381.5	2,933.7	3,687.5	4,551.1	6,531.1
Reported NPAT (TWDm)	2,257.9	2,442.2	2,686.1	3,395.4	4,968.7
Reported EPS FD(TWD)	9.05	9.79	10.77	13.61	19.92
DB EPS FD(TWD)	6.07	7.28	10.77	13.61	19.92
DB EPS growth (%)	86.8	19.8	47.9	26.4	46.3
PER (x)	61.2	46.2	11.5	9.1	6.2
EV/EBITDA (x)	25.1	19.5	8.4	6.8	4.7
DPS (net) (TWD)	8.50	7.00	7.20	9.70	13.50
Yield (net) (%)	2.3	2.1	5.8	7.9	10.9

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Recommendation/Estimate

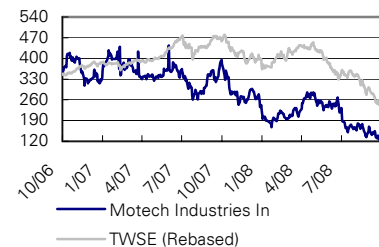
Buy

Price at 21 Oct 2008 (TWD)	123.50
Price target - 12mth (TWD)	190.00
52-week range (TWD)	395.00 - 123.00
TWSE	4,932

Key changes

Price target	250.00 to 190.00	↓	-24.0%
Sales (FYE)	24,508 to 24,699	↑	0.8%
Op prof margin (FYE)	11.4 to 11.8	↑	4.0%
Net profit (FYE)	2,461.3 to 2,686.1	↑	9.1%

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-13.3	-44.6	-68.1
TWSE	-17.4	-30.4	-48.7

Stock data

Market cap (TWDm)	30,809
Market cap (USDm)	946
Shares outstanding (m)	189.9
Major shareholders	Fu-Hien Cheng (8.53%)
Free float (%)	70
Avg daily value traded (USDm)	12.2

Key indicators (FY1)

ROE (%)	21.1
Net debt/equity (%)	8.1
Book value/share (TWD)	63.16
Price/book (x)	1.96
Net interest cover (x)	-
Operating profit margin (%)	11.8

Deutsche Bank AG/Hong Kong

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Model updated: 22 October 2008

Running the numbers**Asia****Taiwan****Hardware & Equipment****Motech Industries Inc**

Reuters: 6244.TWO

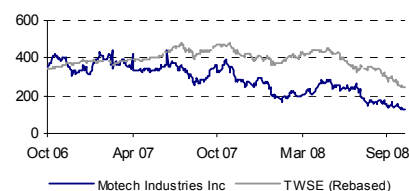
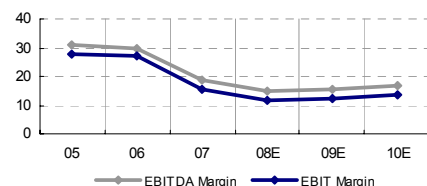
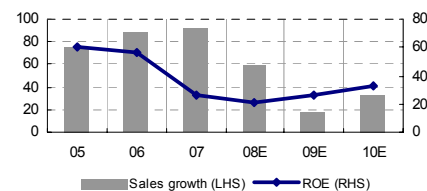
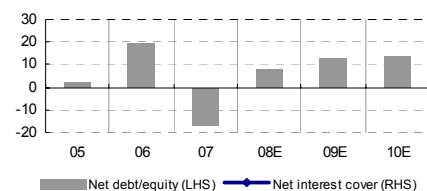
Bloomberg: 6244 TT

Buy

Price (21 Oct 08)	TWD 123.50
Target price	TWD 190.00
52-week Range	TWD 123.00 - 395.00
Market Cap (m)	TWDm 30,809 USDm 946

Company Profile

Founded in 1981, Motech Industries, Inc. (Motech) focused on designing, manufacturing, marketing, and servicing high-end test and measurement instruments. In 1998, the company set up solar energy division as the pioneer in Taiwan for manufacturing single and multi-crystalline silicon solar cells. The company is the largest supplier in Taiwan and has become one of the top 10 suppliers in the world.

Price Performance**Margin Trends****Growth & Profitability****Solvency****Michael Chou**

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Fiscal year end 31-Dec	2005	2006	2007	2008E	2009E	2010E
Financial Summary						
DB EPS (TWD)	3.25	6.07	7.28	10.77	13.61	19.92
Reported EPS (TWD)	4.65	9.05	9.79	10.77	13.61	19.92
DPS (TWD)	4.36	8.50	7.00	7.20	9.70	13.50
BVPS (TWD)	17.9	34.6	78.8	63.2	59.3	67.2
Weighted average shares (m)	140	161	170	190	238	249
Average market cap (TWDm)	22,033	59,752	57,254	30,809	30,809	30,809
Enterprise value (TWDm)	22,033	59,752	57,254	30,809	30,809	30,809
Valuation Metrics						
P/E (DB) (x)	48.5	61.2	46.2	11.5	9.1	6.2
P/E (Reported) (x)	33.9	41.1	34.3	11.5	9.1	6.2
P/BV (x)	12.57	9.58	3.78	1.96	2.08	1.84
FCF Yield (%)	nm	nm	nm	nm	3.8	7.1
Dividend Yield (%)	2.8	2.3	2.1	5.8	7.9	10.9
EV/Sales (x)	5.1	7.4	3.7	1.2	1.1	0.8
EV/EBITDA (x)	16.5	25.1	19.5	8.4	6.8	4.7
EV/EBIT (x)	18.6	27.4	23.6	10.5	8.8	5.9

Income Statement (TWDm)

Sales revenue	4,304	8,099	15,573	24,699	28,988	38,628
Gross profit	1,572	2,684	3,493	4,579	5,591	7,811
EBITDA	1,334	2,382	2,934	3,687	4,551	6,531
Depreciation	149	204	503	764	1,037	1,299
Amortisation	0	0	0	0	0	0
EBIT	1,185	2,178	2,431	2,923	3,514	5,232
Net interest income/(expense)	-1	-2	152	82	115	117
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	-17	87	-124	-275	-39	-33
Profit before tax	1,167	2,263	2,459	2,730	3,590	5,316
Income tax expense	7	5	17	50	206	372
Minorities	0	0	0	-6	-12	-25
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	1,159	2,258	2,442	2,686	3,395	4,969
DB adjustments (including dilution)	-348	-743	-626	0	0	0
DB Net profit	811	1,515	1,816	2,686	3,395	4,969

Cash Flow (TWDm)

Cash flow from operations	295	1,455	-813	1,663	2,882	4,737
Net Capex	-465	-1,709	-858	-2,438	-1,750	-2,550
Free cash flow	-170	-254	-1,671	-775	1,132	2,187
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-135	-369	-1,383	-1,744	-1,794	-2,417
Net inc/(dec) in borrowings	175	2,291	309	1,244	129	100
Other investing/financing cash flows	-56	-342	6,305	-685	-232	-232
Net cash flow	-186	1,326	3,560	-1,960	-765	-362
Change in working capital	-1,113	-873	-1,419	347	-1,550	-1,531

Balance Sheet (TWDm)

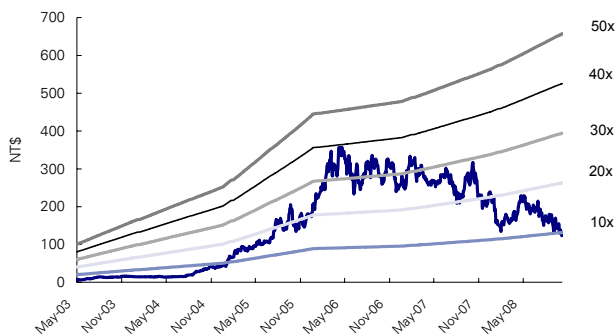
Cash and other liquid assets	239	1,565	5,125	3,165	2,400	2,037
Tangible fixed assets	1,016	2,604	2,921	3,881	4,540	5,784
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	152	149	609	1,275	1,275	1,275
Other assets	1,826	4,733	8,919	10,294	11,721	13,880
Total assets	3,234	9,050	17,573	18,615	19,937	22,977
Interest bearing debt	294	2,621	2,881	4,135	4,263	4,367
Other liabilities	435	870	1,279	2,488	1,546	1,854
Total liabilities	729	3,491	4,160	6,624	5,809	6,221
Shareholders' equity	2,505	5,560	13,413	11,992	14,127	16,755
Minorities	0	0	0	0	0	0
Total shareholders' equity	2,505	5,560	13,413	11,992	14,127	16,755
Net debt	55	1,056	-2,244	970	1,864	2,330

Key Company Metrics

Sales growth (%)	75.7	88.2	92.3	58.6	17.4	33.3
DB EPS growth (%)	86.5	86.8	19.8	47.9	26.4	46.3
EBITDA Margin (%)	31.0	29.4	18.8	14.9	15.7	16.9
EBIT Margin (%)	27.5	26.9	15.6	11.8	12.1	13.5
Payout ratio (%)	52.5	60.5	48.8	50.9	68.1	67.7
ROE (%)	60.3	56.0	25.7	21.1	26.0	32.2
Capex/sales (%)	10.8	21.1	5.5	9.9	6.0	6.6
Capex/depreciation (x)	3.1	8.4	1.7	3.2	1.7	2.0
Net debt/equity (%)	2.2	19.0	-16.7	8.1	13.2	13.9
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Figure 1: Forward PE band for Motech – US GAAP



Source: Deutsche Bank estimates

Figure 2: TP sensitivity for Motech

	2009 sales growth (%)				
	7%	12%	17%	22%	27%
13.7%	136	145	155	165	176
14.7%	154	163	173	183	194
15.7%	169	180	190	200	211
16.7%	186	197	207	217	228
17.7%	204	215	225	235	247

Source: Deutsche Bank estimates

Figure 3: Earnings model for Motech – US GAAP

NT\$m	1Q08	2Q08	3Q08	4Q08E	2008E	1Q09E	2Q09E	3Q09E	4Q09E	2009E
Net Sales	4,902	6,096	6,736	6,964	24,699	6,906	6,940	7,373	7,769	28,988
Gross Profit	816	876	1,051	1,073	3,815	1,067	1,079	1,169	1,239	4,554
Operating Profit	661	644	806	813	2,923	814	828	906	966	3,514
PBT	245	627	940	919	2,730	835	848	925	982	3,590
Tax	24	(18)	(26)	(29)	(50)	(38)	(47)	(55)	(67)	(206)
PAT	269	608	916	892	2,686	801	804	872	918	3,395
EPS (NT\$)	1.08	2.44	3.67	3.58	10.77	3.21	3.22	3.50	3.68	13.61
Margin (%)										
Gross Margin	16.6%	14.4%	15.6%	15.4%	15.4%	15.5%	15.6%	15.9%	16.0%	15.7%
Operating Margin	13.5%	10.6%	12.0%	11.7%	11.8%	11.8%	11.9%	12.3%	12.4%	12.1%
Net Margin	5.5%	10.0%	13.6%	12.8%	10.9%	11.6%	11.6%	11.8%	11.8%	11.7%
Growth (%)										
Sales YoY	100%	83%	11%	55%	52%	61%	60%	39%	3%	36%
PAT YoY	-53%	57%	127%	96%	48%	198%	32%	-5%	3%	26%
Sales QoQ	11%	28%	9%	4%		-1%	0%	6%	5%	
PAT QoQ	-50%	126%	51%	-2%		-11%	0%	9%	5%	

Source: Deutsche Bank estimates

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Motech Industries Inc	6244.TWO	123.50 (TWD) 21 Oct 08	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

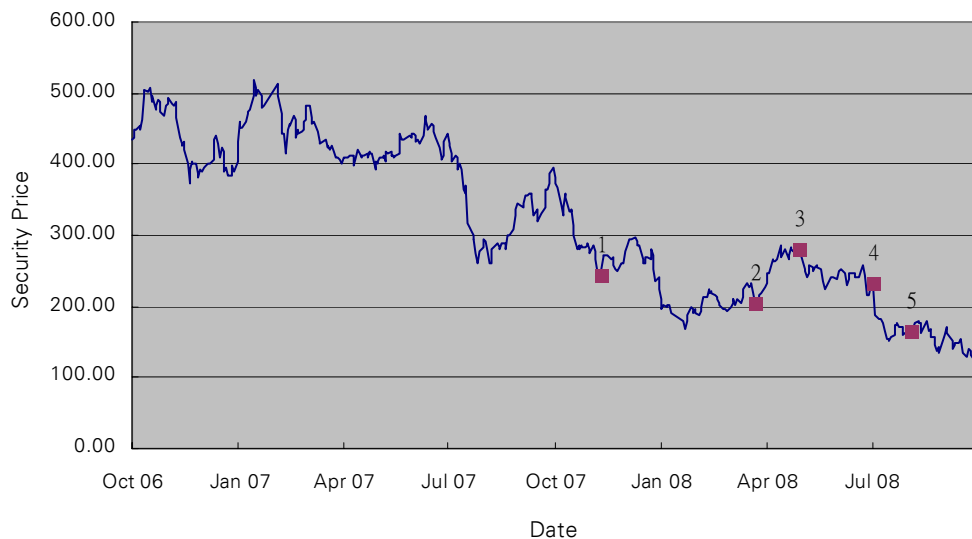
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Historical recommendations and target price: Motech Industries Inc (6244.TWO)

(as of 10/21/2008)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	2/12/2007:	Buy, Target Price Change TWD297.00	4.	24/7/2008:	Buy, Target Price Change TWD267.00
2.	14/4/2008:	Buy, Target Price Change TWD275.00	5.	26/8/2008:	Buy, Target Price Change TWD250.00
3.	21/5/2008:	Buy, Target Price Change TWD320.00			

Equity rating key Equity rating dispersion and banking relationships

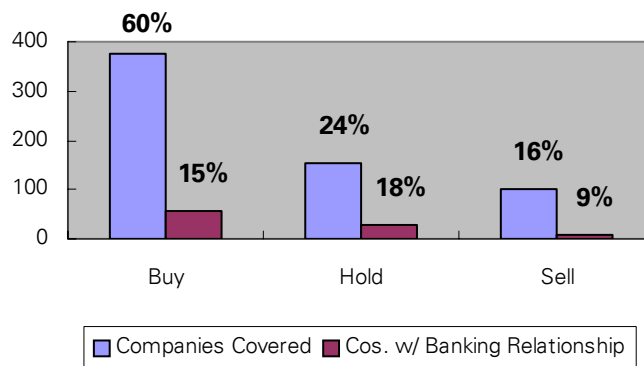
Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

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Asia-Pacific Universe

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