

Difficult bottoming process expected



Merrill Lynch

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Cutting PO to NT\$140; Maintain Underperform

We maintain our Underperform rating and lower our PO to \$140 from \$170. With its slow ramp of wafer processing and delayed ramp from AE Polysilicon, we believe the vertical integration may take much longer to bear fruit than we originally anticipated. Given its near-term headwinds and limited catalysts in sight, Motech appears fully valued at 9x '09E EPS with peers only at 4x-8x.

3Q08 aided by positive FX

Motech released preliminary 3Q financial data: with positive FX impact, 3Q08 margin increased to 15.6% from a dismal 14.4% in 2Q08, in line with our forecast of 15.9%. Net income of NT\$916mn was slightly ahead of our estimate of NT\$852mn. EPS of NT\$3.67 is also higher than our estimate of NT\$3.42.

Uninspiring outlook; Reducing estimates

We expect 4Q08 polysilicon spot price to remain fairly resilient and the portion of contract polysilicon only to increase modestly. Shipment will continue to grow in 4Q, but we think revenue will only grow modestly as softening EUR affects overall module ASP (70% of market is in Europe) and limited FX leverage from TWD in 4Q08.

Credit crunch does not favor vertical integration

While Motech appears to have enough cash to carry out its vertical expansion plan, under the current situation of credit tightening investors may see it as a challenging time to migrate to such model long before the actual accretion is to be realized. Hence, we are reducing '09E revenue by 5% and EPS by 13%. Despite the fact that the share price has fallen hard recently, Motech does not appear very attractive at 9x '09E while some of its US-listed peers are still hovering at a level of 4x '09E.

Estimates (Dec)

| (NT\$) | 2006A | 2007A | 2008E | 2009E | 2010E |
|-----------------------------|--------|--------|---------|--------|--------|
| Net Income (mn) Taiwan GAAP | 2,258 | 2,443 | 2,679 | 3,661 | 4,987 |
| EPS (Pre Bonus) | 14.613 | 12.556 | 11.330 | 14.689 | 18.745 |
| EPS (Post Bonus) | 14.613 | 12.556 | 10.424 | 13.514 | 17.246 |
| EPS Change (YoY) | 265.1% | -14.1% | -17.0% | 29.6% | 27.6% |
| Dividend / Share | 8.50 | 7.00 | 8.39 | 7.82 | 9.76 |
| Free Cash Flow / Share | (2.22) | (8.58) | (20.31) | 20.86 | 4.10 |
| US GAAP EPS | 14.61 | 12.56 | 10.42 | 13.51 | 17.25 |

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

Valuation (Dec)

| | 2006A | 2007A | 2008E | 2009E | 2010E |
|-----------------------|--------|--------|---------|--------|-------|
| P/E (Post Bonus) | 8.18x | 9.52x | 11.46x | 8.84x | 6.93x |
| Dividend Yield | 7.11% | 5.86% | 7.02% | 6.54% | 8.17% |
| Free Cash Flow Yield* | -1.08% | -5.26% | -15.93% | 17.18% | 3.54% |
| US GAAP P/E | 8.18 | 9.52 | 11.46 | 8.84 | 6.93 |

* For full definitions of *iQmethod*SM measures, see page 5.

Stock Data

| | |
|-----------------------------|--------------------------|
| Price | NT\$119.50 |
| Price Objective | NT\$170.00 to NT\$140.00 |
| Date Established | 23-Oct-2008 |
| Investment Opinion | C-3-7 |
| Volatility Risk | HIGH |
| 52-Week Range | NT\$119.50-NT\$331.35 |
| Mrkt Val / Shares Out (mn) | US\$971 / 265.7 |
| Average Daily Volume | 1,892,900 |
| ML Symbol / Exchange | MOEIF / TWO |
| Bloomberg / Reuters | 6244 TT / 6244.TWO |
| ROE (2008E) | 21.4% |
| Net Dbt to Eqty (Dec-2006A) | -22.2% |
| Est. 5-Yr EPS / DPS Growth | 30.0% / 30.0% |
| Free Float | 50.0% |



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23 October 2008

iQprofileSM Motech Industries Inc.

| Key Income Statement Data (Dec) | 2006A | 2007A | 2008E | 2009E | 2010E |
|--|-------|--------|--------|--------|--------|
| (NT\$ Millions) | | | | | |
| Sales | 8,099 | 15,578 | 24,888 | 29,472 | 34,330 |
| Gross Profit | 2,475 | 2,991 | 3,923 | 5,270 | 6,494 |
| Sell General & Admin Expense | (257) | (366) | (556) | (737) | (858) |
| Operating Profit | 2,170 | 2,431 | 3,112 | 4,238 | 5,515 |
| Net Interest & Other Income | 86 | 28 | (479) | (528) | (478) |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | 2,256 | 2,459 | 2,634 | 3,711 | 5,037 |
| Tax (expense) / Benefit | 1 | (17) | 45 | (50) | (50) |
| Net Income (Adjusted) | 2,258 | 2,443 | 2,679 | 3,661 | 4,987 |
| Average Fully Diluted Shares Outstanding | 155 | 195 | 257 | 271 | 289 |

Key Cash Flow Statement Data

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Net Income (Reported) | 2,258 | 2,443 | 2,679 | 3,661 | 4,987 |
| Depreciation & Amortization | 363 | 491 | 824 | 1,158 | 1,491 |
| Change in Working Capital | (599) | (1,478) | (4,149) | 2,996 | (4,133) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | (1,065) | (2,269) | (2,412) | (361) | 779 |
| Cash Flow from Operations | 957 | (813) | (3,057) | 7,453 | 3,125 |
| Capital Expenditure | (1,300) | (857) | (2,000) | (2,000) | (2,000) |
| (Acquisition) / Disposal of Investments | 0 | 0 | 0 | 0 | 0 |
| Other Cash Inflow / (Outflow) | 0 | (443) | 0 | 0 | 0 |
| Cash Flow from Investing | (1,300) | (1,300) | (2,000) | (2,000) | (2,000) |
| Shares Issue / (Repurchase) | 0 | 0 | 0 | 0 | 0 |
| Cost of Dividends Paid | (369) | (1,383) | (1,661) | (2,050) | (2,142) |
| Cash Flow from Financing | 1,881 | 5,714 | 2,553 | (3,050) | (3,142) |
| Free Cash Flow | (343) | (1,670) | (5,057) | 5,453 | 1,125 |
| Net Debt | 818 | (2,984) | 6,598 | 3,320 | 4,485 |
| Change in Net Debt | 762 | (3,269) | 9,503 | (3,403) | 1,017 |

Key Balance Sheet Data

| | | | | | |
|-------------------------------|-------|--------|--------|--------|--------|
| Property, Plant & Equipment | 1,954 | 2,921 | 4,097 | 4,939 | 5,448 |
| Other Non-Current Assets | 232 | 4,516 | 4,516 | 4,516 | 4,516 |
| Trade Receivables | 754 | 1,113 | 2,297 | 1,741 | 2,962 |
| Cash & Equivalents | 1,671 | 5,125 | 2,544 | 4,822 | 2,657 |
| Other Current Assets | 2,876 | 3,898 | 10,220 | 7,533 | 10,632 |
| Total Assets | 7,487 | 17,573 | 23,672 | 23,550 | 26,215 |
| Long-Term Debt | 1,874 | 2,141 | 8,141 | 7,141 | 6,141 |
| Other Non-Current Liabilities | 25 | 135 | 135 | 135 | 135 |
| Short-Term Debt | 615 | 1 | 1,001 | 1,001 | 1,001 |
| Other Current Liabilities | 686 | 1,883 | 2,811 | 2,203 | 3,169 |
| Total Liabilities | 3,200 | 4,160 | 12,088 | 10,479 | 10,446 |
| Total Equity | 4,287 | 13,412 | 11,584 | 13,071 | 15,768 |
| Total Equity & Liabilities | 7,487 | 17,573 | 23,672 | 23,550 | 26,214 |

iQmethodSM - Bus Performance*

| | | | | | |
|----------------------------|-------|-------|-------|-------|-------|
| Return On Capital Employed | 41.4% | 21.4% | 16.5% | 18.8% | 23.1% |
| Return On Equity | 66.5% | 27.6% | 21.4% | 29.7% | 34.6% |
| Operating Margin | 26.8% | 15.6% | 12.5% | 14.4% | 16.1% |
| EBITDA Margin | 31.3% | 18.8% | 15.8% | 18.3% | 20.4% |

iQmethodSM - Quality of Earnings*

| | | | | | |
|--------------------------|-------|--------|-------|-------|-------|
| Cash Realization Ratio | 0.4x | -0.3x | -1.1x | 2.0x | 0.6x |
| Asset Replacement Ratio | 3.6x | 1.7x | 2.4x | 1.7x | 1.3x |
| Tax Rate (Reported) | NM | 0.7% | NM | 1.3% | 1.0% |
| Net Debt-to-Equity Ratio | 19.1% | -22.2% | 57.0% | 25.4% | 28.4% |
| Interest Cover | NM | 26.4x | 17.8x | 9.0x | 13.2x |

Key Metrics

| | | | | | |
|--------------|----|----|----|----|----|
| CASH EPS | NA | NA | NA | NA | NA |
| Analyst ROIC | NA | NA | NA | NA | NA |
| Analyst ROE | NA | NA | NA | NA | NA |

* For full definitions of iQmethodSM measures, see page 5.

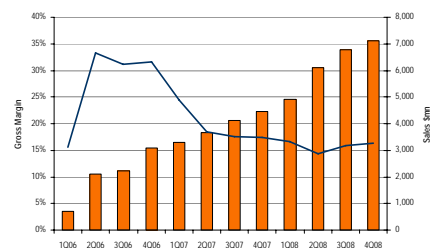
Company Description

Motech started design and manufacturing solar battery cells in 1998. The company is the largest solar cell manufacturer in Taiwan and has strong relationships with mono/multi-crystalline wafer suppliers.

Investment Thesis

2008 is a transitional year for Motech. We don't expect a sharp rebound amid vertical integration efforts. We don't expect meaningful benefit until in-house wafer production and polysilicon from AE and DC Chemical become more significant in 2H09. We remain defensive on Motech as both 09 demand outlook and its integration effort are uncertain. But, we're confident that 08 remains a strong year for solar. Steady sales growth should continue in the next 1-2 quarters as it expands capacity to 580MW.

Chart 1: Quarterly sales vs. gross margin



Source: Merrill Lynch estimates

Stock Data

Price to Book Value 2.7x

Table 1: Motech 3Q08 results

| NT \$mn | 2Q08A | 3Q08A | 3Q08E | QoQ | Diff |
|--------------------|--------|--------|--------|-----|------|
| Revenue | 6,096 | 6,736 | 6,577 | 10% | 2% |
| GP margin | 14.40% | 15.60% | 15.90% | 9% | -2% |
| Net income | 608 | 916 | 852 | 51% | 8% |
| EPS - basic (NT\$) | 2.44 | 3.67 | 3.42 | 50% | 7% |

Source: Motech and Merrill Lynch estimates

Table 2: Motech estimates changes

| NT\$ mn | 2008E | | | 2009E | | |
|------------------|--------|--------|-----|--------|--------|------|
| | Old | New | Chg | Old | New | Chg |
| Sales | 24,646 | 24,888 | 1% | 30,983 | 29,472 | -5% |
| Gross Profit | 3,940 | 3,923 | 0% | 5,825 | 5,270 | -10% |
| Operating Profit | 3,138 | 3,112 | -1% | 4,741 | 4,238 | -11% |
| Net Income | 2,705 | 2,679 | -1% | 4,188 | 3,661 | -13% |
| EPS | 10.525 | 10.424 | -1% | 15.459 | 13.514 | -13% |

Source: Motech and Merrill Lynch estimates

Table 3: Motech financial model

| | 1Q08E | 2Q08E | 3Q08E | 4Q08A | 2008E | 2009E |
|--------------------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Net Sales | 4,902 | 6,096 | 6,776 | 7,115 | 24,888 | 29,472 |
| CoG | (4,086) | (5,220) | (5,705) | (5,955) | (20,966) | (24,202) |
| Gross Profit | 816 | 876 | 1,071 | 1,160 | 3,923 | 5,270 |
| Gross Margin | 16.6% | 14.4% | 15.8% | 16.3% | 15.8% | 17.9% |
| Opex | (155) | (232) | (209) | (214) | (810) | (1,032) |
| Sales | (27) | (41) | (61) | (64) | (193) | (295) |
| Admin | (65) | (97) | (101) | (100) | (363) | (442) |
| R&D | (63) | (94) | (47) | (50) | (254) | (295) |
| Op Income | 661 | 644 | 862 | 946 | 3,112 | 4,238 |
| Non Op Income | (416) | (17) | (14) | (14) | (461) | (528) |
| Interest Income | 26 | 30 | 1 | 1 | 59 | (289) |
| Investment Gain | (19) | (5) | (5) | (5) | (34) | 0 |
| Disposal Gain | 12 | 0 | 0 | 0 | 12 | (100) |
| Exchange Gain | (428) | (50) | 0 | 0 | (478) | (100) |
| Others | (9) | (10) | (10) | (10) | (39) | (39) |
| Pretax Income | 245 | 627 | 848 | 932 | 2,652 | 3,711 |
| Income Tax | 24 | (19) | 20 | 20 | 45 | (50) |
| Net Income | 269 | 608 | 868 | 952 | 2,697 | 3,661 |
| EPS | 1.40 | 2.44 | 3.49 | 3.71 | 11.0 | 13.4 |
| Fully diluted EPS | 1.31 | 2.31 | 3.30 | 3.51 | 10.4 | 13.5 |

Source: Source: Motech and Merrill Lynch estimates

Price objective basis & risk

Motech Industrie (MOEIF)

Our PO of NT\$140 reflects a 40% discount to our ROOC fair value of NT\$230, consistent with 10-40% discount of peers. We believe the discount fairly reflects the risk with uncertain profitability recovery, risks of vertical integration and uncertainty of 2009 outlook. With limited catalysts in sight, we expect Motech to underperform its peers. Risks to our price objective are further hike in oil prices and better than expected 2009 subsidy outlook.

Analyst Certification

I, Lu Yeung, 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 - Solar Energy Coverage Cluster

| Investment rating | Company | ML ticker | Bloomberg symbol | Analyst |
|---------------------|-------------------|-----------|------------------|----------|
| BUY | | | | |
| | China Sunerg-ADR | CSUN | CSUN US | Lu Yeung |
| | Renesola Ltd | RESLF | SOLA LN | Lu Yeung |
| | Renesola Ltd | SOL | SOL US | Lu Yeung |
| | Sino American | SOAEF | 5483 TT | Lu Yeung |
| | Suntech Power-A | STP | STP US | Lu Yeung |
| | Yingli Green-ADR | YGE | YGE US | Lu Yeung |
| NEUTRAL | | | | |
| | Trina Solar Ltd | TSL | TSL US | Lu Yeung |
| UNDERPERFORM | | | | |
| | JA Solar Hol- ADR | JASO | JASO US | Lu Yeung |
| | Motech Industrie | MOEIF | 6244 TT | Lu Yeung |

23 October 2008

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 |

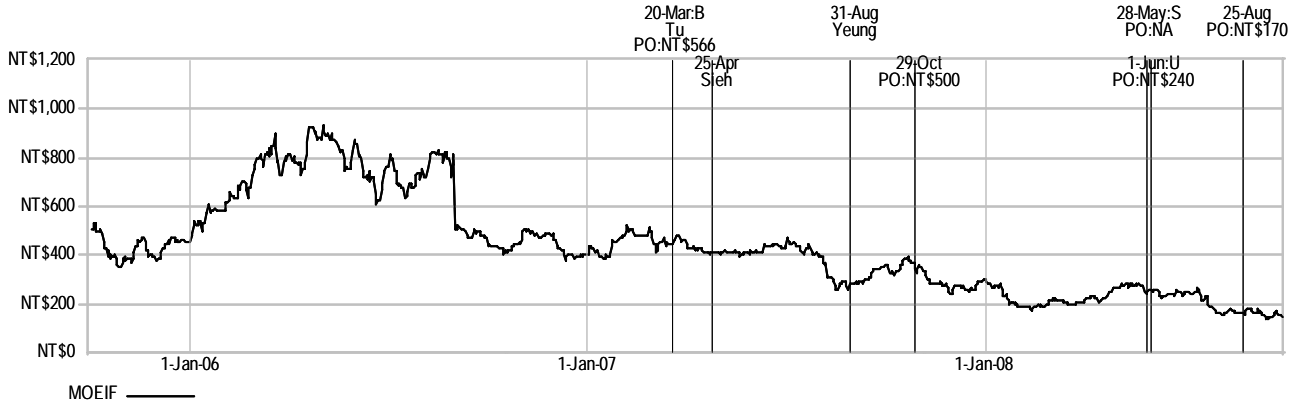
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MOEIF Price Chart



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.

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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% |

* 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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