

Powerchip Semiconductor Corp.

Record losses in 3Q08; maintain cautious stance

Neutral

5346.TWO, 5346 TT

Price: NT\$4.77

▼ **Price Target: NT\$4.60**

Previous: NT\$7.50

- Record losses in 3Q08:** Powerchip reported a net loss of NT\$15B in 3Q08, well below our estimate. EBITDA also was significantly negative (negative NT\$4.0B), due to the sharp DRAM price correction (we estimate 23% qoq) in spot and contract markets. The company's cash position is still reasonable at NT\$16B, boosted by private placements at Kingston, ASE and Powertech. Bit growth was 6%, due to limited capacity addition and slow process migration. 65nm output was negligible in 3Q08 but should start to ramp up from 4Q08.
- Industry capex to fall sharply in FY09, but demand should also slow:** Powerchip lowered its FY08 capex to NT\$20B (10% lower) and guided for FY09 capex of NT\$10B (down 50% yoy). We expect most DRAM vendors to have sharp capex cuts for FY09. However, we also worry about much slower DRAM content growth (due to netbooks and poorer mix) and poor PC unit growth.
- Financing situation looks better than Promos but still under pressure:** Powerchip is in a better financial position due to its higher cash position (it can survive three more quarters of cash burn at current levels). However, Powerchip still has around NT\$22B of loan repayments maturing in the next 12 months. While the chance of refinancing of these loans is higher than Promos, leverage still remains very high.
- Maintain cautious stance, remain Neutral:** We remain cautious on the memory space, given the sharply weakening demand environment, financing difficulties and erosion of book value. We expect a rebound sometime in 2009, but would favor Tier-1 DRAM makers in an upturn. Powerchip still needs a sharp rebound to come back into profitability and has to contend with debt repayments in the medium term. In addition, the sharp depreciation in the Korean Won makes Taiwan DRAM makers even less competitive. We maintain Neutral and cut our Dec-08 PT to NT\$4.6 (0.6x FY08E book) from NT\$7.50. A key risk is a faster-than-expected production cut at Tier-1 DRAM makers.

Taiwan
Semiconductors

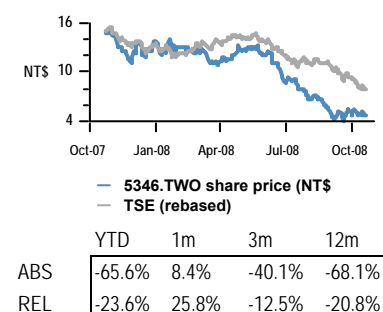
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J.P. Morgan Securities (Taiwan) Limited.

Price Performance



Reuters: 5346.TW, Bloomberg: 5346 TT

	FY06	FY07	FY08E	FY09E	FY07	FY08	FY09E	FY10E			
Sales (US\$B)	92.1	77.5	60.6	71.6	Y/E BPS (NT\$)	16.6	13.23	7.72	4.63	52-Week range	NT\$ 4.1-15.6
Operating Profit	27.8	-11.0	-36.6	-19.9	P/B	0.3	0.4	0.6	1.0	Shares Out. (Com)	7,845MM
EBITDA	51.8	22.3	-3.1	10.3	ROE (%)	22.7	-10.7	-51.0	-50.1	Avg daily volume	51.5MM
Pre-Tax Profit	29.3	-15.0	-43.0	-25.0	Core ROIC (%)	21.6	-4.8	-21.0	-12.5	Avg daily value	NT\$400.8MM
Net Profit	27.5	-12.3	-41.9	-24.3	Cash Div. (NT\$/Share)	0.47	1.36	0.00	0.00	Avg daily value	US\$12.3MM
Core net Profit	3.9	0.0	0.0	0.0	Quarterly EPS (US\$)	1Q	2Q	3Q	4Q	Free float	65%
EPS (US\$)	23.8	-12.3	-41.9	-24.3	EPS (FY07)	0.99	-0.50	-0.25	-1.80	Market Cap	US\$1.14B
EPS growth (%)	3.52	-1.59	-5.33	-3.09	EPS (FY08E)	-1.24	-0.93	-1.94	-1.35	Date of Price	21 Oct 08
FD EPS (US\$)	1.4	-3.0	-0.9	-1.5	EPS (FY09E)	-1.17	-0.95	-0.64	-0.33	FY08E Div Yld (%)	0
Cash EPS (US\$)	46.8	25.1	3.4	4.8	Abs. Per (%) (1M,3M,12M)		-55.4	-61.2	-76.0	Exchange rate	32.7/US\$
Net debt	58.0	88.4	93.4	100.0	Rel. Perf (%) (1M,3M,12M)		-50.3	-50.3	-67.6	GDR 5346q.L	US\$1.80
BVPS (US\$)	125.8	103.5	60.6	36.3	Dec-08 PT		4.6			Ratio	1/10

Source: Company data, Bloomberg, J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 1: Powerchip Semiconductor Corp – Earnings results summary

NT\$ in millions, year-end December

	This period	JPM est.	Variance	Year ago	% Y/Y	Last period	% Q/Q		FY08E	FY09E
Sales	14,970	16,092	-7%	17,918	-16%	17,440	-14%	Old EPS (NT GAAP)	-4.42	-3.08
Gross Profit	-8,942	-6,993	28%	-2,330	284%	-5,843	-53%	New EPS (NT GAAP)	-5.33	-3.09
Gross Margin	-59.7%	-43.5%	-1,628 bsp	-13.0%	-47 pct pt	-33.5%	-26 pct pt	% change	-21%	0%
Operating profit	-10,431	-8,119	28%	-3,386	208%	-7,122	-46%	P/E (x)	-0.9	-1.5
Operating margin	-69.7%	-50.5%	-1,922 bsp	-18.9%	-51 pct pt	-40.8%	-29 pct pt	ROE (%)	-51.0	-50.1
EBT	-13,730	-8,906	54%	-3,245	323%	-7,610	-80%	P/B (x)	0.6	1.0
Net profit	-15,015	-8,639	74%	-1,903	689%	-7,273	-106%			
EPS (NT\$)	-1.94	-1.10	76%	-0.25	687%	-0.93	-109%			

Source: Company reports, J.P. Morgan estimates.

3Q08 review

Table 2: Powerchip Semiconductor Corp 3Q08 – Actual versus J.P. Morgan estimates

NT\$ in millions, year-end December

	Actual	JPM est.	Variance	Comment
Sales	14,970	16,092	-7.0%	Higher price erosion, slower transition to 65nm
Gross profit	-8,942	-6,993	-28%	Lower-than-expected cost down
Gross Margin	-60%	-43%	-1628 bps	
Operating profit	-10,431	-8,119	-28%	Opex in line
Operating Margin	-70%	-50%	-1922 bps	
PBT	-13,730	-8,906	-54%	Higher losses at Rexchip due to slower move to 65nm process
Net Income	-15,015	-8,639	-74%	High tax expenses in 3Q08 despite mounting losses
EPS (reported, NT\$)	-1.94	-1.10	-76%	

Source: Company reports, J.P. Morgan estimates.

Earnings estimate revisions

Table 3: Powerchip Semiconductor Corp – Earnings estimate revisions

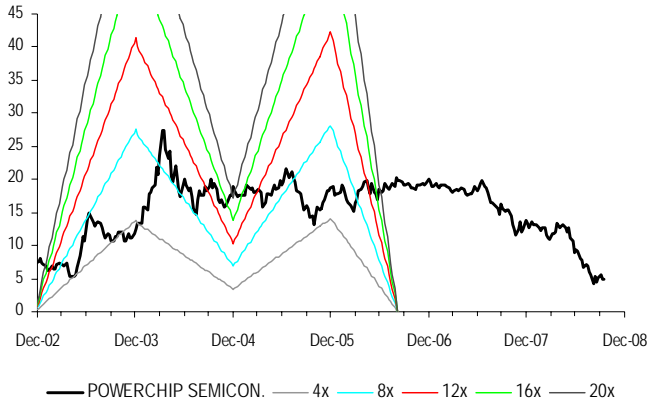
NT\$ in millions, year-end December

	Revised				Prior				Change			
	4Q08E	1Q09E	FY08E	FY09E	4Q08E	1Q09E	FY08E	FY09E	4Q08E	1Q09E	FY08E	FY09E
Sales	13,326	14,409	60,577	71,616	14,595	16,706	62,968	72,136	-9%	-14%	-4%	-1%
Gross profit	-7,745	-6,652	-31,088	-15,035	-7,396	-5,530	-28,790	-17,106	-5%	-20%	-8%	12%
Gross Margin	-58%	-46%	-51%	-21%	-51%	-33%	-46%	-24%	-7pct pts	-13pct pts	-6pct pts	3 pct pts
Operating profit	-8,944	-7,660	-36,587	-19,869	-8,418	-6,699	-33,741	-21,971	-6%	-14%	-8%	10%
Operating Margin	-67%	-53%	-60%	-28%	-58%	-40%	-54%	-30%	-9pct pts	-13pct pts	-7pct pts	3 pct pts
EBT	-10,907	-9,449	-43,039	-25,028	-9,322	-7,434	-37,388	-24,200	-17%	-27%	-15%	-3%
Net Income	-10,580	-9,166	-41,853	-24,277	-9,042	-7,434	-34,698	-24,200	-17%	-23%	-21%	0%
EPS (New TW GAAP)	-1.35	-1.17	-5.33	-3.09	-1.15	-0.95	-4.42	-3.08	-17%	-23%	-21%	0%

Source: Company reports, J.P. Morgan estimates.

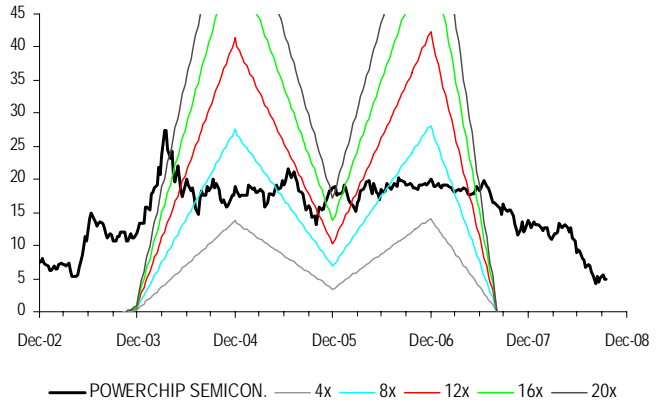
Valuation

Figure 1: 12M Forward P/E



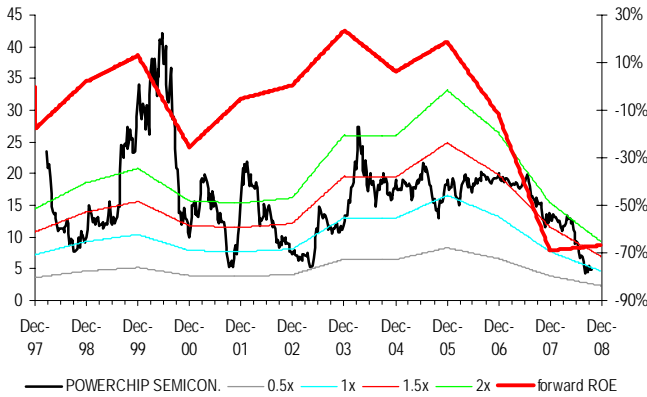
Source: Company reports, Datastream, J.P. Morgan estimates.

Figure 2: 12M trailing P/E



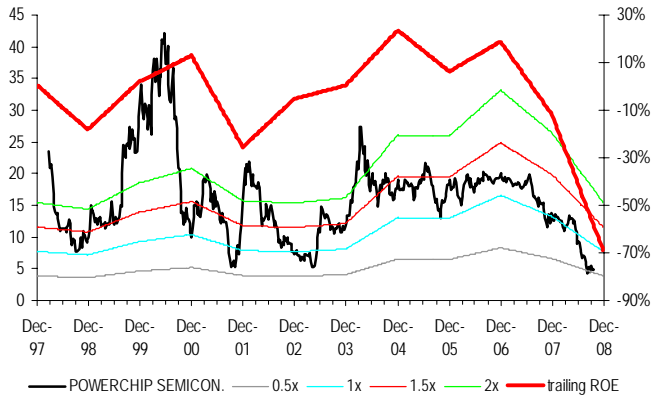
Source: Company reports, Datastream, J.P. Morgan estimates.

Figure 3: 12M Forward P/BV



Source: Company reports, Datastream, J.P. Morgan estimates.

Figure 4: 12M trailing P/BV



Source: Company reports, Datastream, J.P. Morgan estimates.

Table 4: Powerchip Semiconductor Corp – Earnings model

NT\$ in billions, year-end December	FY07				FY08E				FY09E				FY07	FY08E	FY09E	FY10E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE				
Revenue	28.9	17.3	17.9	13.4	14.8	17.4	15.0	13.3	14.4	16.1	19.7	21.4	77.5	60.6	71.6	65.0
Depreciation	7.7	8.0	8.4	9.2	9.0	8.6	8.2	7.7	7.9	7.4	7.7	7.2	33.3	33.5	30.2	23.8
COGS	20.0	20.1	20.2	22.9	23.4	23.3	23.9	21.1	21.1	21.3	22.6	21.7	83.3	91.7	86.7	73.6
Gross profit	8.9	-2.9	-2.3	-9.5	-8.6	-5.8	-8.9	-7.7	-6.7	-5.2	-2.9	-0.3	-5.8	-31.1	-15.0	-8.7
Operating expense	1.6	1.1	1.1	1.5	1.5	1.3	1.5	1.2	1.0	1.0	1.3	1.5	5.2	5.5	4.8	4.4
Operating income	7.3	-4.0	-3.4	-11.0	-10.1	-7.1	-10.4	-8.9	-7.7	-6.2	-4.2	-1.8	-11.0	-36.6	-19.9	-13.0
Net non-op inc (exp)	0.8	-1.4	0.1	-3.5	-1.5	-0.5	-3.3	-2.0	-1.8	-1.5	-1.0	-0.9	-4.0	-6.5	-5.2	-7.4
Pre-tax profit	8.1	-5.4	-3.2	-14.5	-11.6	-7.6	-13.7	-10.9	-9.4	-7.7	-5.2	-2.7	-15.0	-43.0	-25.0	-20.5
Tax expense (credit)	0.6	-1.6	-1.3	-0.5	-1.8	-0.3	1.3	-0.3	-0.3	-0.2	-0.2	-0.1	-2.8	-1.2	-0.8	0.0
Net profit	7.5	-3.8	-1.9	-14.1	-9.7	-7.3	-15.0	-10.6	-9.2	-7.5	-5.0	-2.6	-12.3	-41.9	-24.3	-20.5
New TW GAAP EPS (NT\$)	0.99	-0.50	-0.25	-1.80	-1.24	-0.93	-1.94	-1.35	-1.17	-0.95	-0.64	-0.33	-1.59	-5.33	-3.09	-2.61
Key Drivers																
Capacity (k wfpq 8-inch equiv)	874	955	1,012	1,124	1,191	1,225	1,225	1,225	1,326	1,394	1,461	1,495	3,964	4,865	11,346	12,962
Foundry wafer output (k)	161	123	171	178	194	194	194	194	203	203	203	203	632	778	1,846	2,302
DRAM Output (256Mb-equiv m units)	430	507	535	659	811	861	904	911	1,064	1,196	1,370	1,515	2,131	3,487	8,400	8,628
Blended DRAM ASP (US\$)	1.75	0.95	0.79	0.47	0.44	0.47	0.36	0.33	0.35	0.35	0.38	0.40	0.90	0.40	0.37	0.31
Margins (%)																
Gross margin	31.0	-16.7	-13.0	-71.0	-57.7	-33.5	-59.7	-58.1	-46.2	-32.0	-14.9	-1.4	-7.5	-51.3	-21.0	-13.3
Operating margin	25.4	-23.2	-18.9	-81.9	-67.9	-40.8	-69.7	-67.1	-53.2	-38.5	-21.4	-8.4	-14.2	-60.4	-27.7	-20.1
EBITDA margin	49.8	32.4	35.4	-9.7	4.6	10.6	-23.2	-7.2	3.3	9.1	18.4	25.6	32.3	-3.2	15.4	16.6
Net margin	26.1	-22.3	-10.6	-104.8	-65.7	-41.7	-100.3	-79.4	-63.6	-46.3	-25.6	-12.1	-15.8	-69.1	-33.9	-31.5
Sequential Growth (%)																
DRAM Output (256Mb-equiv m units)	18	18	5	23	23	6	5	1	17	12	15	11	96	64	141	3
Revenue	-12	-40	4	-25	11	18	-14	-11	8	12	22	9	-16	-22	18	-9
Gross profit	-42	-132	-19	309	-10	-32	53	-13	-14	-22	-43	-90	-118	-437	52	42
EBIT	-48	-154	-15	225	-8	-29	46	-14	-14	-19	-32	-57	-140	-231	46	34
Net profit	-51	-151	-51	639	-31	-25	106	-30	-13	-19	-32	-48	-145	-241	42	16
New TW GAAP EPS	-46	-151	-51	629	-31	-25	109	-31	-13	-19	-32	-48	-145	-234	42	16

Source: Company reports, J.P. Morgan estimates.

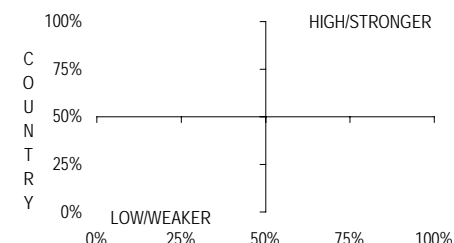
All Data As Of 21-Oct-08

Q-Snapshot: Powerchip Semiconductor Corp.

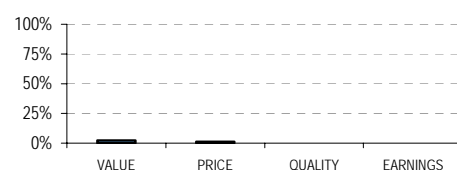
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
Value			
P/E Vs Market (12mth fwd EPS)	0%	1%	7.9x
P/E Vs Sector (12mth fwd EPS)	0%	1%	7.0x
EPS Growth (forecast)			0.0%
Value Score	2%	2%	
Price Momentum			
12 Month Price Momentum	11%	20%	-69.0%
1 Month Price Reversion	3%	2%	8.4%
Momentum Score	1%	2%	
Quality			
Return On Equity (forecast)	0%	0%	-31.0%
Earnings Risk (Variation in Consensus)	4%	8%	0.47
Quality Score	0%	2%	
Earnings & Sentiment			
Earnings Momentum 3mth (risk adjusted)			
1 Mth Change in Avg Recom.	0%	0%	-0.06
Net Revisions FY2 EPS	100%	100%	100%
Earnings & Sentiment Score			
COMPOSITE Q-SCORE* (0% To 100%)			

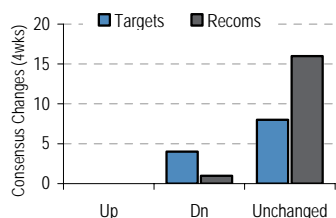
J.P. Morgan Composite Q-Score



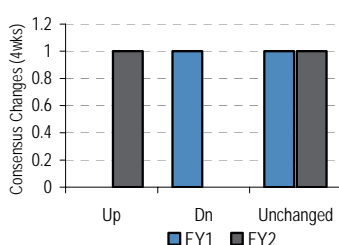
INDUSTRY
Quant Return Drivers Summary (vs Country)



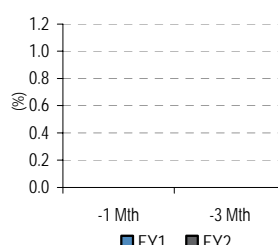
Targets & Recommendations**



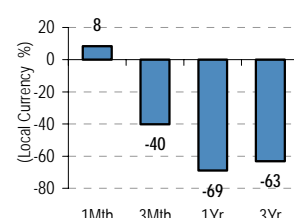
EPS Revisions**



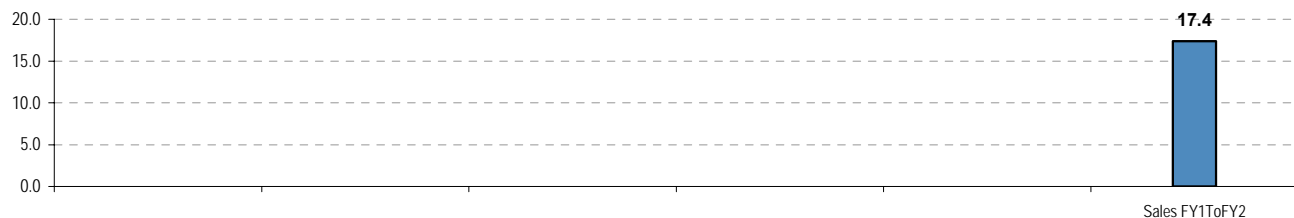
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
2603-TW	Evergreen Marine Corp. (Taiwan) Ltd.	Marine Shipping	1,326	5.98	NA	15%
2890-TW	SinoPac Financial Holdings Co. Ltd.	Regional Banks	1,322	4.97	25.3	36%
2888-TW	Shin Kong Financial Holding Co. Ltd.	Life/Health Insurance	1,278	16.71	-5.0	1%
2475-TW	Chunghwa Picture Tubes Ltd.	Electronic Components	1,206	7.83	NA	2%
3008-TW	LARGAN Precision Co. Ltd.	Electronics/Appliance Stores	1,178	27.75	12.3	82%
5346-TW	Powerchip Semiconductor Corp.	Semiconductors	1,151	10.97	-1.4	
2606-TW	U-Ming Marine Transport Corp.	Marine Shipping	1,065	18.03	3.1	90%
6116-TW	HannStar Display Corp.	Electronic Components	1,041	6.69	NA	2%
2408-TW	Nanya Technology Corp.	Semiconductors	1,038	4.71	-1.3	
3474-TW	Inotera Memories Inc.	Semiconductors	1,015	3.51	-3.2	
6239-TW	Powertech Technology Inc.	Semiconductors	991	12.61	4.8	87%

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.
* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

Powerchip Semiconductor Corp: Summary of financials

Income statement					Ratio Analysis				
NT\$ in billions, year-end Dec	FY07A	FY08E	FY09E	FY10E	%, year-end Dec	FY07A	FY08E	FY09E	FY10E
Revenues	77.5	60.6	71.6	65.0	Gross Margin	-7.5	-51.3	-21.0	-13.3
Cost of Goods Sold	83.3	91.7	86.7	73.6	EBITDA margin	28.7	-5.1	14.4	16.6
Gross Profit	-5.8	-31.1	-15.0	-8.7	Operating Margin	-14.2	-60.4	-27.7	-20.1
R&D Expenses	3.0	3.5	3.4	3.1	Net Margin	-15.8	-69.1	-33.9	-31.5
SG&A Expenses	2.3	2.0	1.4	1.3	R&D/sales	3.9	5.8	4.8	4.7
Operating Profit (EBIT)	-11.0	-36.6	-19.9	-13.0	SG&A/Sales	2.9	3.3	2.0	2.0
EBITDA	22.3	-3.1	10.3	10.8	Sales growth	-15.9	-21.8	18.2	-9.3
Interest Income	0.8	0.3	0.1	0.3	Operating Profit Growth	-139.7	-231.4	45.7	34.3
Interest Expense	1.7	3.1	3.5	4.2	Net profit growth	-144.6	-241.2	42.0	15.6
Investment Income (Exp.)	-1.2	-4.5	-2.9	-4.6	EPS (Reported) growth	-139.3	-234.4	42.0	15.6
Non-Operating Income (Exp.)	-1.8	0.9	1.1	1.0	EPS (New TW GAAP) growth	-145.3	-234.4	42.0	15.6
Earnings before tax	-15.0	-43.0	-25.0	-20.5	Interest coverage (x)	-6.4	-11.6	-5.8	-3.1
Tax	-2.8	-1.2	-0.8	0.0	Net debt to total capital	33.0	58.5	69.9	73.4
Net Income (Reported)	-12.3	-41.9	-24.3	-20.5	Net debt to equity	61.1	148.6	262.2	657.2
Net Income (Adjusted)	-12.3	-41.9	-24.3	-20.5	Asset Turnover	34.6	33.5	42.4	39.3
EPS (Reported, NT\$)	-1.59	-5.33	-3.09	-2.61	Working Capital Turns (X)	20.1	-3.2	-3.2	-7.3
EPS (Adjusted, NT\$)	-1.59	-5.33	-3.09	-2.61	ROE	-10.7	-51.0	-50.1	-129.4
BPS (NT\$)	13.23	7.72	4.63	2.02	ROIC	-4.8	-21.0	-12.5	-9.4
DPS	1.36	0.00	0.00	0.00	ROCE	-4.0	-19.7	-12.5	-8.2
Shares Outstanding (bn)	7.7	7.8	7.8	7.8					
Balance sheet					Cash flow statement				
NT\$ in billions, year-end Dec	FY07A	FY08E	FY09E	FY10E	NT\$ in billions, year-end Dec	FY07A	FY08E	FY09E	FY10E
Cash and cash equivalents	25.1	3.4	4.8	21.8	Net Income	-12.3	-41.9	-24.3	-20.5
Accounts receivable	3.9	4.4	7.0	5.1	Depr. & Amortisation	33.3	33.5	30.2	23.8
Inventories	7.5	5.9	9.5	6.9	Change in working capital	7.5	-3.3	-2.2	-3.0
Others	3.8	3.0	4.8	3.5	Other	0.0	0.0	0.0	0.0
Current assets	40.4	16.7	26.1	37.3	Cash flow from operations	28.5	-11.7	3.7	0.3
LT investments	34.0	37.2	34.3	29.7	Capex	-43.5	-9.4	-11.7	-13.7
Net fixed assets	140.6	116.5	98.1	88.0	Disposal/ (purchase)	-26.5	-4.4	2.9	4.6
Others	9.1	10.3	10.3	10.3	Cash flow from investing	-70.0	-13.8	-8.9	-9.2
Total assets	224.1	180.6	168.8	165.3	Free cash flow	-15.0	-21.1	-8.1	-13.4
ST loans	21.1	15.1	13.2	12.0	Equity raised/ (repaid)	13.2	-5.5	0.0	0.0
Payables	10.2	12.8	10.3	7.6	Debt raised/ (repaid)	30.4	5.0	6.6	25.9
Others	21.8	13.8	22.2	16.0	Other	-13.5	4.2	0.0	0.0
Total current liabilities	53.0	41.7	45.7	35.6	Dividends paid	-10.3	0.0	0.0	0.0
					Cash flow from financing	19.8	3.7	6.6	25.9
Long term debt	67.3	78.3	86.8	113.9	Net change in cash	-21.7	-21.8	1.4	17.1
Other liabilities	0.3	0.0	0.0	0.0	Beginning cash	46.8	25.1	3.4	4.8
Total liabilities	120.6	120.0	132.5	149.5	Ending cash	25.1	3.4	4.8	21.8
Shareholders' equity	103.5	60.6	36.3	15.8					

Source: Company reports, J.P. Morgan estimates.

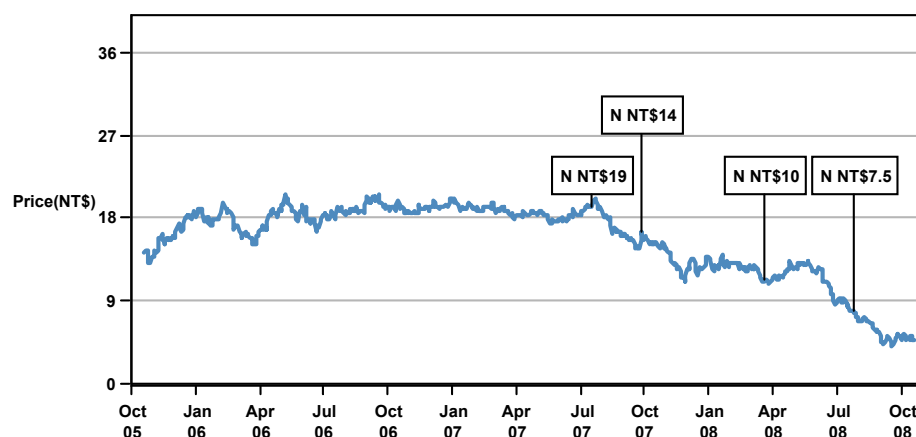
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Powerchip Semiconductor Corp. (5346.TWO) Price Chart



Date	Rating	Share Price (NT\$)	Price Target (NT\$)
19-Jul-07	N	19.21	19.00
28-Sep-07	N	16.55	14.00
19-Mar-08	N	11.25	10.00
24-Jul-08	N	8.00	7.50

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
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