

# Waiting for better visibility on new product cycle



## Analyst meeting; no details on op profit and bottom line

Richtek held its 3Q analyst meeting today. Its 3Q sales of NT\$2bn, up 15% QoQ and 16.5% YoY, are in line with our estimate. Gross margin climbed to 39.4% in 3Q, which is better than our estimate of 38.5% thanks to NTD depreciation and cost down efforts. However, the company didn't provide any details about its operating profit and bottom line at the analyst meeting. We expect its EPS to reach NT\$3.3, up 31% QoQ and down 18% YoY.

## Better-than-expected 4Q margin guidance

Management has turned less negative on its 4Q outlook and is guiding a sequential sales decline of 4-9% and gross margin of 38-40%. It indicated that demand from local handset makers in China remains solid while PC-related products should decline in line with seasonality. The contribution from new products such as high-voltage power management IC and LCD system power management remains low; better visibility is expected in 2009.

## When to turn positive?

Despite its recent 30% share price correction amid the financial turmoil, Richtek's share price is it still trades at a premium P/E to its local and global peers. We see the risk of de-rating ahead given Richtek's deteriorating transparency, uncertain tech demand and macro headwinds. We'll turn more positive on the stock when we have better visibility on its new product delivery.

## Estimates (Dec)

(NT\$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	1,241	1,772	1,451	1,470	1,637
EPS (Pre Bonus)	9.891	13.755	13.426	13.814	15.512
EPS (Post Bonus)	1.941	8.692	10.994	10.991	12.237
EPS Change (YoY)	-2.4%	347.8%	26.5%	0%	11.3%
Dividend / Share	5.00	8.50	5.60	5.87	6.53
Free Cash Flow / Share	10.01	11.68	10.59	10.14	9.37

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

## Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	94.55x	21.11x	16.69x	16.69x	15.00x
Dividend Yield	2.72%	4.63%	3.05%	3.20%	3.56%
Free Cash Flow Yield*	5.12%	6.13%	5.69%	5.52%	5.10%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 8.

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## Stock Data

Price	NT\$183.50
Price Objective	NT\$180.00
Date Established	25-Sep-2008
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	NT\$148.00-NT\$371.82
Mkt Val / Shares Out (mn)	US\$759 / 133.8
Average Daily Volume	4,538,248
ML Symbol / Exchange	RHTKF / TAI
Bloomberg / Reuters	6286 TT / 6286.TW
ROE (2008E)	34.4%
Net Dbt to Eqty (Dec-2007A)	-21.1%
Est. 5-Yr EPS / DPS Growth	15.0% / 15.0%
Free Float	60.0%



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Refer to important disclosures on page 9 to 10. Analyst Certification on Page 7. Price Objective Basis/Risk on page 7.

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# iQprofile<sup>SM</sup> Richtek Technology

## Key Income Statement Data (Dec)

(NT\$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	4,297	6,062	7,172	7,950	9,222
Gross Profit	1,853	2,576	2,809	2,980	3,385
Sell General & Admin Expense	(208)	(262)	(411)	(469)	(544)
Operating Profit	1,318	1,861	1,570	1,548	1,724
Net Interest & Other Income	(61)	(36)	(27)	0	0
Associates	NA	NA	NA	NA	NA
Pretax Income	1,256	1,825	1,543	1,548	1,723
Tax (expense) / Benefit	(15)	(53)	(91)	(77)	(86)
Net Income (Adjusted)	1,241	1,772	1,451	1,470	1,637
Average Fully Diluted Shares Outstanding	126	129	132	134	134

## Key Cash Flow Statement Data

Net Income (Reported)	1,241	1,772	1,451	1,470	1,637
Depreciation & Amortization	105	127	167	204	214
Change in Working Capital	(64)	(387)	(295)	(963)	(1,278)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	47	79	296	782	815
Cash Flow from Operations	1,329	1,591	1,619	1,493	1,388
Capital Expenditure	(72)	(85)	(222)	(137)	(135)
(Acquisition) / Disposal of Investments	(768)	(592)	(143)	(350)	150
Other Cash Inflow / (Outflow)	(74)	(112)	130	397	200
Cash Flow from Investing	(914)	(789)	(234)	(90)	215
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(249)	(588)	(1,018)	(746)	(887)
Cash Flow from Financing	(229)	(572)	(1,044)	(396)	(387)
Free Cash Flow	1,257	1,505	1,398	1,356	1,253
Net Debt	(597)	(827)	(1,177)	(2,184)	(3,401)
Change in Net Debt	(186)	(230)	(341)	(1,007)	(1,216)

## Key Balance Sheet Data

Property, Plant & Equipment	289	318	476	613	748
Other Non-Current Assets	324	676	701	1,000	717
Trade Receivables	572	905	1,062	1,376	1,909
Cash & Equivalents	609	839	1,177	2,184	3,401
Other Current Assets	1,693	2,138	2,317	2,841	3,164
Total Assets	3,487	4,877	5,732	8,015	9,938
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	50	57	120	152	233
Short-Term Debt	12	12	0	0	0
Other Current Liabilities	701	888	1,094	1,794	2,070
Total Liabilities	764	957	1,214	1,946	2,303
Total Equity	2,724	3,919	4,518	6,069	7,635
Total Equity & Liabilities	3,487	4,877	5,732	8,015	9,938

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	52.4%	50.0%	33.1%	25.9%	22.2%
Return On Equity	55.9%	53.4%	34.4%	27.8%	23.9%
Operating Margin	30.7%	30.7%	21.9%	19.5%	18.7%
EBITDA Margin	33.1%	32.8%	24.2%	22.0%	21.0%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.1x	0.9x	1.1x	1.0x	0.8x
Asset Replacement Ratio	0.7x	0.7x	1.3x	0.7x	0.6x
Tax Rate (Reported)	1.2%	2.9%	5.9%	5.0%	5.0%
Net Debt-to-Equity Ratio	-21.9%	-21.1%	-26.1%	-36.0%	-44.5%
Interest Cover	NM	NM	NA	NA	NA

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Description

Richtek is the leading power IC company in Taiwan. After focusing on PC-related power components initially, the company has, since 2005, penetrated into other applications like DSC, handsets and displays. It is the only Taiwan fabless player that has the ability to design power ICs for Intel's CPU.

## Investment Thesis

We believe Richtek will continue to grapple with the risk of de-rating arising from its historical premium valuation multiple in 2008 because of margin concerns due to intense price competition. We believe its growth outlook in 2008 is already priced in.

## Stock Data

Price to Book Value 5.4x

## Less negative on margin

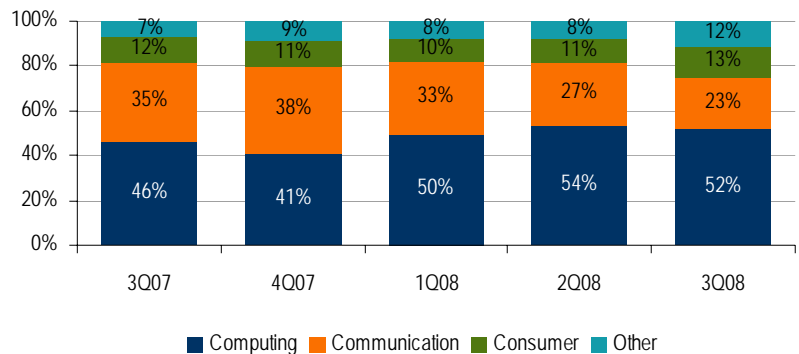
Richtek held its 3Q analyst meeting today. Its 3Q sales reached NT\$2bn, up 15% QoQ and 16.5% YoY, which is in line with our estimate. Gross margin climbed to 39.4% in 3Q, which is better than our estimate of 38.5% thanks to NTD depreciation and cost down efforts. However, the company didn't provide any details about its operating profit and bottom line at the analyst meeting. We expect its EPS to reach NT\$3.3, up 31% QoQ and down 18% YoY.

Management has turned less negative on its 4Q outlook and is guiding a sequential sales decline of 4-9% and gross margin of 38-40%. It indicated that demand from local handset makers in China remains solid while PC-related products should decline in line with seasonality. The contribution from new products such as high-voltage power management IC and LCD system power management remains low; better visibility is expected in 2009.

## Key highlights from the analyst meeting

- **Computing products (52% of sales, including display, MB, NB and VGA card).** PC-related products increased 11% QoQ and 32% YoY in 3Q. The company indicated that demand remains stable with single digit sales decline. While ASP pressure remains fierce, management expects it to outperform industry growth thanks to its leading position and support from foundry partners.
- **Communication products (23% of sales, including handset and networking).** The company's handset business is showing stagnant growth due to increasing integration on baseband SoC. Its 3Q communication business declined 2% QoQ and 23% YoY. While management is positive on China handset makers' peak season demand, we see decelerating momentum from top-tier clients. Management has high expectations for the momentum of networking in 4Q on the back of increasing 11n popularity.
- **Consumer products (13% of sales, including handheld and DSC).** After strong sales growth of 36% QoQ in 3Q, the company expects flat QoQ momentum for its consumer products in 4Q. However, we're conservative on consumer electronics order flow as other IC companies (eg, Orise) are looking at about 10% QoQ sales decline for DSC, DV and GPS. And GPS players like Mitac are also looking at muted 4Q momentum.
- **Others (12% sales, mainly overseas distributor business and some storage products).**

Chart 1: Revenue breakdown by product



Source: Company data

## Still minimal contribution from new products

Longer term, Richtek's new products – eg, high integration and high voltage power management products – could be the next catalysts. The company has high expectations for its LED BLU for large panels and audio-related power management products. However, given high entry barriers and the longer qualification process for these products, we believe it will take a while for the company to get design wins. Consequently, we don't expect any significant contribution from these products in the short term. We think early 1H09 would be a better check point to gauge its new product development for high-voltage applications.

## Retain Underperform; NT\$180 PO unchanged

During its analyst meeting, Richtek only provided 3Q gross margin and 4Q sales/GM guidance. The company didn't provide details about its operating margin, and non-operating and earnings information. We slightly revise our FY08/09E earnings to reflect its stable margin outlook, but retain our Underperform rating.

After the recent 30% share price correction amid the financial turmoil, Richtek's share price is less demanding. That said, it still trades at a premium P/E to its local and global peers. We see the risk of de-rating ahead given Richtek's deteriorating transparency, uncertain tech demand and macro headwinds. We'll turn more positive on the stock when we have better visibility on its new product delivery.

Table 1: New versus old forecast

NT\$m	2008F			2009F		
	Previous	New	Change (%)	Previous	New	Change (%)
Sales	7,132	7,172	0.6%	7,852	7,950	1.3%
Gross profit	2,719	2,809	3.3%	2,915	2,980	2.2%
Operating profits	1,489	1,569	5.4%	1,502	1,548	3.1%
Net income	1,374	1,451	5.6%	1,427	1,470	3.1%
EPS (NT\$)	10.41	10.99	5.6%	10.67	10.99	3.1%
Gross margin	38.1%	39.2%		37.1%	37.5%	
Operating margin	20.9%	21.9%		19.1%	19.5%	
Net margin	19.3%	20.2%		18.2%	18.5%	

Source: Merrill Lynch estimates

Table 2: Asian fabless companies valuation comparison

Companies	ML Ticker	ML Rating	Stock price	EPS		PER		ROIC		ROE		Net cash Market cap
			14 Oct 2008	2008	2009	2008	2009	2008	2009	2008	2009	
Realtek	RLTOF	C-3-7 Underperform	59.0	3.7	5.4	15.8	10.9	15.9%	12.9%	9.5%	11.8%	31%
Sunplus	SNPLF	C-3-7 Underperform	14.2	1.1	1.1	12.3	12.9	1.5%	-0.4%	5.2%	5.1%	16%
Mediatek	MDTKF	C-1-7 Buy	295.5	21.3	25.0	13.8	11.8	26.8%	27.0%	24.8%	26.8%	20%
Novatek	NVKMF	C-3-7 Underperform	44.3	7.4	8.0	6.0	5.5	19.2%	17.2%	24.1%	24.4%	34%
Faraday	FDYTF	C-3-8 Underperform	38.4	2.0	1.8	18.8	21.4	7.9%	8.6%	11.2%	10.1%	15%
Richtek	RHTKF	C-3-7 Underperform	183.5	11.0	11.0	16.7	16.7	35.8%	30.3%	34.4%	27.8%	9%
Himax (US\$)	HIMX	C-3-7 Underperform	2.8	0.6	0.4	4.7	6.2	21.4%	13.8%	22.2%	14.4%	19%
Spreadtrum (US\$)	SPRD	C-3-9 Underperform	1.7	-0.1	0.0	NM	NM	-4.5%	-0.8%	-3.5%	0.1%	89%
Average						12.6	12.2	15.5%	13.6%	16.0%	15.1%	29%

Source: BBG, Merrill Lynch estimates

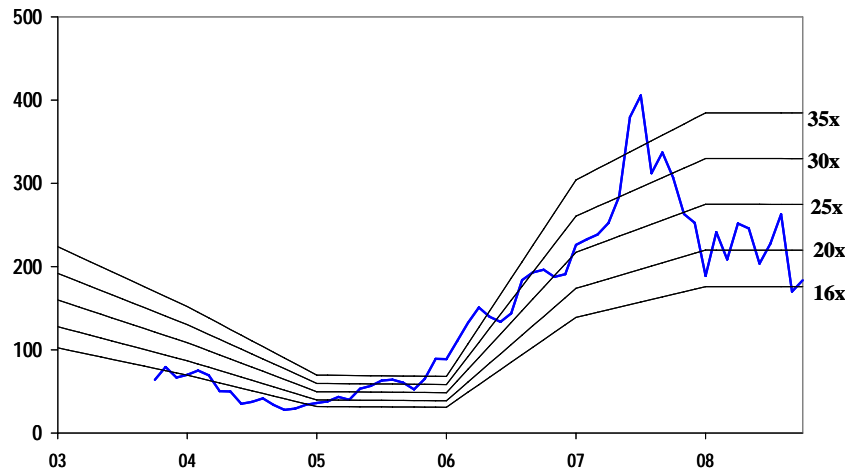
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Table 3: US power & logic IC companies valuation comparison

Company	ML Ticker	ML Rating	Stock price	EPS		PER		EV/EBITDA		ROIC		ROE	
			13 Oct 2008	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Linear Tech	LLTC	C-3-7 Underperform	27.2	1.7	1.8	15.9	15.6	12.2	11.7	41.3%	31.1%	NM	NM
Intersil	ISIL	C-3-7 Underperform	14.0	1.5	1.2	9.7	11.6	6.2	6.2	7.5%	6.7%	8.0%	6.5%
Analog Device	ADI	C-2-7 Neutral	24.0	2.6	1.8	9.1	13.3	8.7	8.5	21.2%	21.2%	32.9%	20.6%
Fairchild	FCS	C-3-9 Underperform	7.0	0.6	0.7	11.9	9.5	3.8	3.6	7.0%	7.4%	5.9%	7.1%
National Semi	NSM	C-2-7 Neutral	14.9	1.3	1.3	11.8	11.2	6.5	6.7	22.8%	20.1%	34.2%	99.6%
Average						11.7	12.2	7.5	7.3	20.0%	17.3%	20.3%	33.5%
Richtek	RHTKF	C-3-7 Underperform	183.5	11.0	11.0	16.7	16.7	12.7	12.6	35.8%	30.3%	34.4%	27.8%

Source: BBG, Merrill Lynch estimates

Chart 2: Richtek bonus adjusted PE band



Source: Merrill Lynch estimates, TEJ

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Table 4: Richtek quarterly P&amp;L

NT\$m; %	1Q08	2Q08	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	FY2007	FY2008E	FY2009E
Sales	1,508	1,756	2,021	1,886	1,699	1,834	2,149	2,269	6,062	7,172	7,950
Cost of Sales	(916)	(1,084)	(1,225)	(1,137)	(1,050)	(1,148)	(1,343)	(1,430)	(3,487)	(4,362)	(4,970)
Gross Profit	592	672	796	749	649	686	806	840	2,575	2,809	2,980
Operating Expenses	(260)	(281)	(346)	(353)	(333)	(346)	(372)	(381)	(715)	(1,240)	(1,432)
Operating Profits	332	391	451	396	316	340	433	459	1,860	1,569	1,548
Non-operating Income	(20)	(17)	5	5	(0)	(0)	(0)	(0)	(36)	(27)	(0)
Pre-tax Profit	312	374	456	401	316	339	433	459	1,824	1,542	1,548
Tax Expense	(17)	(41)	(18)	(16)	(16)	(17)	(22)	(23)	(53)	(91)	(77)
Net Profit	295	334	437	385	300	323	412	436	1,771	1,451	1,470
EPS (NT\$)	2.2	2.5	3.3	2.9	2.2	2.4	3.1	3.3	13.7	11.0	11.0
<b>% of revenue</b>											
Gross Margin	39.3%	38.3%	39.4%	39.7%	38.2%	37.4%	37.5%	37.0%	42.5%	39.2%	37.5%
Operating Expense	-17.3%	-16.0%	-17.1%	-18.7%	-19.6%	-18.9%	-17.3%	-16.8%	-11.8%	-17.3%	-18.0%
Operating Margin	22.0%	22.3%	22.3%	21.0%	18.6%	18.5%	20.2%	20.2%	30.7%	21.9%	19.5%
Pre-tax Margin	20.7%	21.3%	22.5%	21.2%	18.6%	18.5%	20.2%	20.2%	30.1%	21.5%	19.5%
Net Margin	19.6%	19.0%	21.6%	20.4%	17.7%	17.6%	19.2%	19.2%	29.2%	20.2%	18.5%
Tax Rate	-5.4%	-10.8%	-4.0%	-4.0%	-5.0%	-5.0%	-5.0%	-5.0%	-2.9%	-5.9%	-5.0%
<b>Sequential Growth</b>											
Sales	-8.1%	16.5%	15.0%	-6.7%	-10.0%	8.0%	17.2%	5.6%	41.1%	18.3%	10.9%
Cost of Sales	-4.3%	18.4%	12.9%	-7.1%	-7.7%	9.4%	17.0%	6.5%	42.7%	25.1%	13.9%
Gross Profit	-13.4%	13.5%	18.5%	-5.9%	-13.4%	5.7%	17.5%	4.2%	38.9%	9.1%	6.1%
Operating Expense	31.9%	7.9%	23.0%	2.1%	-5.7%	4.1%	7.5%	2.3%	33.7%	73.4%	15.5%
Operating Profit	-31.7%	17.8%	15.2%	-12.1%	-20.2%	7.4%	27.6%	5.9%	41.0%	-15.6%	-1.4%
Non-operating Income	44.8%	-15.9%	-129.0%	0.0%	-102.2%	0.0%	0.0%	0.0%	-41.8%	-24.0%	-98.4%
Pre-Tax Profit	-34.0%	20.0%	21.7%	-12.0%	-21.2%	7.4%	27.7%	5.9%	45.1%	-15.5%	0.4%
Tax Expense	605.0%	142.3%	-55.0%	-12.0%	-1.4%	7.4%	27.7%	5.9%	254.6%	72.4%	-15.4%
Net Profit	-37.2%	13.0%	31.1%	-12.0%	-22.0%	7.4%	27.7%	5.9%	42.5%	-18.1%	1.3%
<b>YoY Growth</b>											
Sales	20.2%	22.7%	16.5%	14.9%	12.6%	4.4%	6.3%	20.3%	41.1%	18.3%	10.9%
Cost of Sales	29.8%	31.5%	22.6%	18.8%	14.6%	5.9%	9.7%	25.7%	42.7%	25.1%	13.9%
Gross Profit	7.8%	10.9%	8.2%	9.5%	9.5%	2.1%	1.2%	12.1%	38.9%	9.1%	6.1%
Operating Expense	61.4%	61.5%	89.7%	78.8%	27.8%	23.2%	7.7%	7.9%	33.7%	73.4%	15.5%
Operating Profit	-14.4%	-9.5%	-18.6%	-18.6%	-4.8%	-13.2%	-3.8%	15.9%	41.0%	-15.6%	-1.4%
Non-operating Income	na	na	-136.9%	-135.3%	-99.5%	-99.4%	-102.2%	-102.2%	-41.8%	-24.0%	-98.4%
Pre-Tax Profit	-18.5%	-12.7%	-15.7%	-15.1%	1.3%	-9.3%	-4.9%	14.5%	45.1%	-15.5%	0.4%
Tax Expense	114.1%	101.6%	-20.0%	na	-5.5%	-58.1%	18.9%	43.1%	na	72.4%	-15.4%
Net Profit	-21.3%	-18.4%	-15.5%	-18.1%	1.7%	-3.3%	-5.8%	13.3%	42.5%	-18.1%	1.3%

Source: Company data, Merrill Lynch estimates

## Price objective basis & risk

### Richtek Technology (RHTKF)

Our PO of NT\$180 is based on 16x 09E P/E, which is the low end of its trading range. We believe Richtek will be traded back to the low end of its historical P/E in the face of stiff price competition from foreign competitors. The valuation is supported by our long-term return on operating capital fair value model. Although Richtek will benefit from Taiwan power IC companies' market share gain, we expect its profitability will suffer. Upside risk: Design wins from global Tier 1 handset brands. Downside risk: Lower-than-expected gross margin.

## 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	Elpida Memory	ELPDF	6665 JP	Simon Dong-je Woo, CFA
	Mediatek	MDTKF	2454 TT	Laura Chen
	Nan Ya PCB Corporation	NANYF	8046 TT	Daniel Heyler
	Samsung Elec	SSNLF	005930 KS	Simon Dong-je Woo, CFA
	Samsung Elec -G	SSNHY	SMSN LI	Simon Dong-je Woo, CFA
	Siliconware	SPIL	SPIL US	Daniel Heyler
	Siliconware	SPILF	2325 TT	Daniel Heyler

**APR - Semiconductor Coverage Cluster**

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	ASM Pacific	ASMFV	522 HK	Daniel Heyler
	Chipbond Technol	CPBTF	6147 TT	Daniel Heyler
	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	RLTOF	2379 TT	Laura Chen
	Richtek Technology	RHTKF	6286 TT	Laura Chen
	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

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
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
<b>Quality of Earnings</b>		
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
<b>Valuation Toolkit</b>		
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

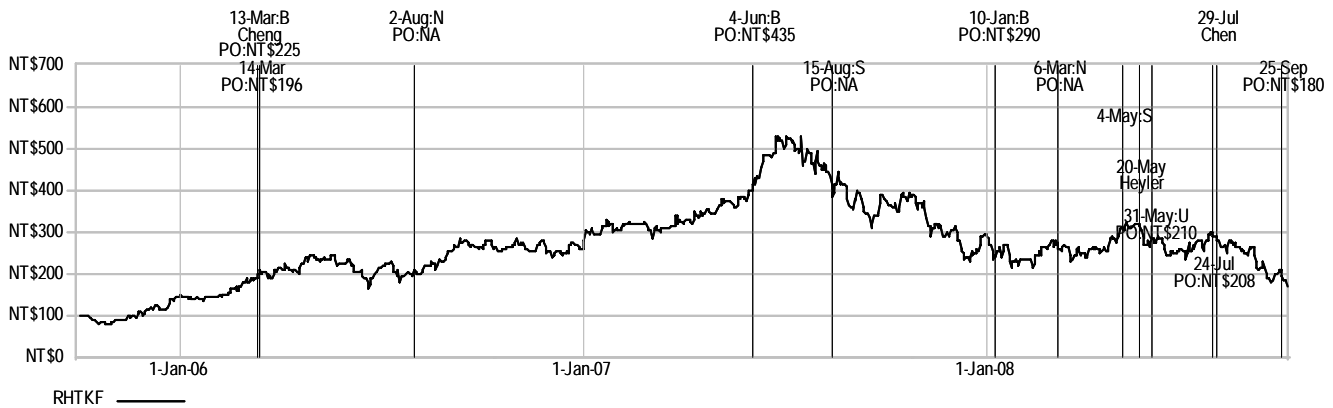
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## Important Disclosures

### RHTKF 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: Industrials/Multi-Industry Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	60.00%	Buy	10	18.87%
Neutral	17	17.00%	Neutral	5	31.25%
Sell	23	23.00%	Sell	2	10.00%

### 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%

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