

TAIWAN

SPIL

29 October 2008

2325 TT **Underperform**

Stock price as of 29 Oct 08	NT\$	30.40
12-month target	NT\$	27.50
Upside/downside	%	-9.5
Valuation	NT\$	23.30-31.70
- Price To Book		

GICS sector	semiconductors & semiconductor equipment
Market cap	NT\$m 95,839
30-day avg turnover	NT\$m 372.9
Market cap	US\$m 2,855
Number shares on issue	m 3,153

Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	m	64,622	63,196	54,981	62,394
Reported profit	m	17,491	9,427	8,001	9,214
Profit bonus exp	m	13,537	9,427	8,001	9,214
Bon exp/rep prof	%	22.6	0.0	0.0	0.0
Adjusted profit	m	17,491	9,427	8,001	9,214
EPS rep	NT\$	5.50	2.98	2.54	2.92
EPS rep growth	%	42.1	-45.9	-14.7	15.2
EPS bonus exp	NT\$	4.26	2.98	2.54	2.92
EPS bonus growth	%	31.9	-30.1	-14.7	15.2
PE rep	x	5.5	10.2	12.0	10.4
PE bonus exp	x	7.1	10.2	12.0	10.4
Total DPS	NT\$	4.35	2.37	2.01	2.32
Total div yield	%	14.3	7.8	6.6	7.6
ROA	%	19.7	11.9	9.4	11.2
ROE	%	26.5	14.0	12.1	13.4
EV/EBITDA	x	2.7	3.8	4.1	3.8
Net debt/equity	%	-26.3	-20.3	-22.8	-28.0
Price/book	x	1.4	1.5	1.4	1.3

2325 TT rel Taix performance, & rec history



Source: Datastream, Macquarie Research, October 2008 (all figures in NT\$ unless noted)

Analyst

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Spotlight in outlook

Event

- We attended SPIL's 3Q08 analyst meeting and provide an update.

Impact

- As expected, 4Q08 drop more than seasonality.** SPIL now expects an 8–13% QoQ revenue decline (vs the Street estimate of a 10% drop and our estimate of a 12% fall) and an OM drop to 14–16% vs our forecast of a 14.3% fall. We are not surprised by SPIL's gloomy outlook amid a weak economic outlook and global financial turmoil. However, our recent checks have surprised us regarding no forward monthly visibility among IC back-end makers vs two-month visibility in the past; this is unheard of in our experience. Today, during the investor conference, SPIL's chairman also confirmed only one-month's visibility from its client due to a freeze in demand.
- Having said that, we expect severe ASP erosion in 2009 because overall industry average utilization has been shrinking faster than expected, from 80%+ in 1H08 to 75%+ in 2H08 and could be close to 70% in 1H09. Of this, SPIL had better control in blended utilization rate, which is over 90%.
- The slowdown in 1H09 is not priced-in, in our view.** While investors focus on the magnitude of the 4Q08 decline and the general 2009 outlook, we sense that investors are overlooking the expected deep drop in 1H09. Based on our recent checks and our foundry analyst Warren Lau's estimate, we expect a severe seasonal decline in 1H09. We currently forecast a 22% HoH decline in 2009, with greater than a 15% QoQ dip in 1Q09 due to weakening demand and further order cuts.
- 3Q08 results were better than expected.** 3Q08 EPS of NT\$1.02 were better than expected, up 32% QoQ, but down 37% YoY, driven by utilization improvement and NT\$ strength. The GM increased by 300bp to 18% due to an improved cost structure. Operating expense was also in better control, down to 5.5% of sales from 5.7% in 2Q08. Asia sales declined to 35% of sales from 40% in 2Q08, while US sales jumped by 4% to 59%. This actually raised our concerns as the slowdown in US customers may accelerate in the coming quarter.

Earnings revision

- We are raising our 2008 EPS by 3% after the company's 3Q08 earnings announcement.

Price catalyst

- 12-month price target: NT\$27.50 based on a Price to Book methodology.
- Catalyst: Deteriorating utilization rate and further order cuts

Action and recommendation

- We think it is premature to turn positive given potential downside earnings risks on low visibility and huge pricing pressure. We expect SPIL's ROE to drop for the third year in a row to 12.1% in 2009 from 26.5% in 2007. Of this, its quarterly ROE in 1H09 is likely to be below 10%. Maintain Underperform.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

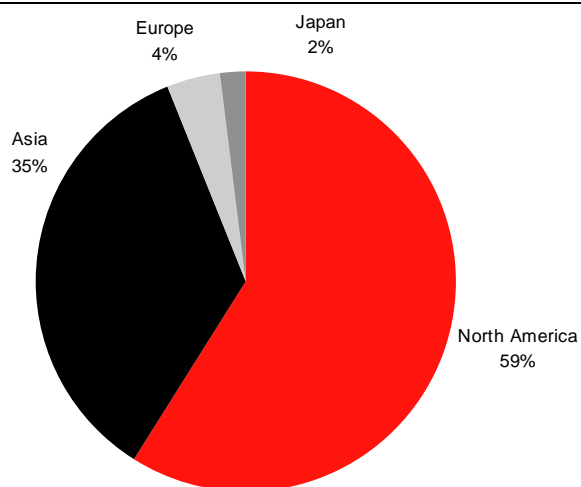
Analysis

Fig 1 Earnings revision

	Revised		Original		% diff.	
	2008E	2009E	2008E	2009E	2008E	2009E
Sales	63,196	54,981	63,196	54,981	0%	0%
Gross profit	13,604	11,223	13,293	11,224	2%	0%
GM	21.5%	20.4%	21.0%	20.4%	-	-
Operating profit	9,919	7,755	9,580	7,755	4%	0%
OPM	15.7%	14.1%	15.2%	14.1%	-	-
Net income	9,427	8,011	9,146	8,011	3%	0%
EPS	2.99	2.54	2.90	2.54	3%	0%

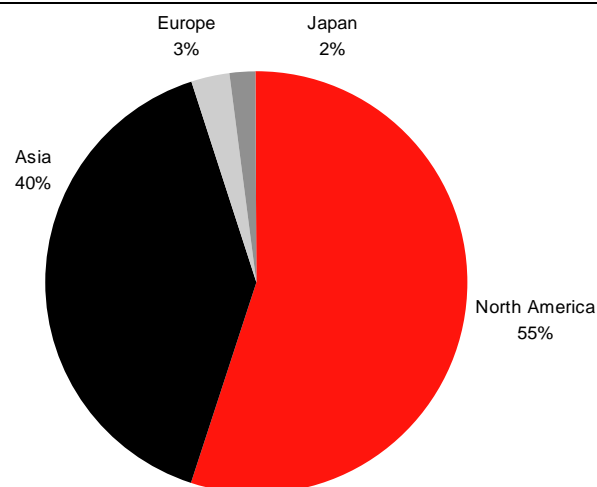
Source: Macquarie Research, October 2008

Fig 2 Sales breakdown by region 3Q08



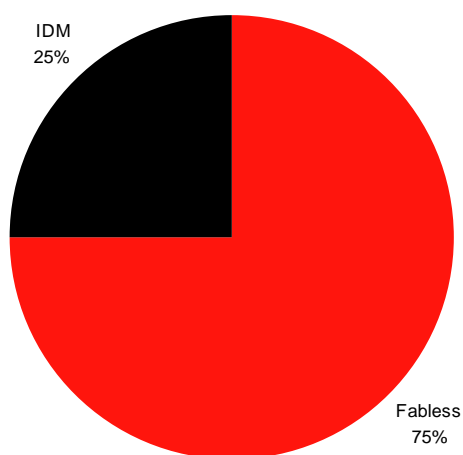
Source: Company data, Macquarie Research, October 2008

Fig 3 Sales breakdown by region 2Q08



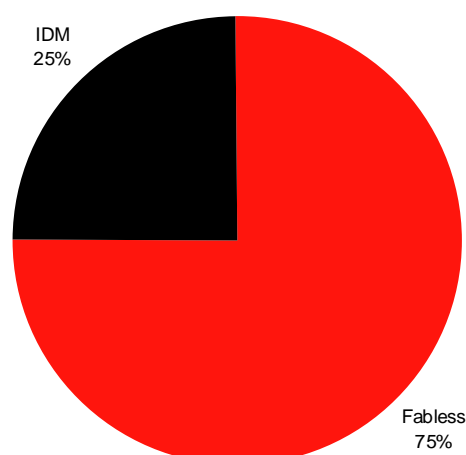
Source: Company data, Macquarie Research, October 2008

Fig 4 Sales breakdown by customer 3Q08



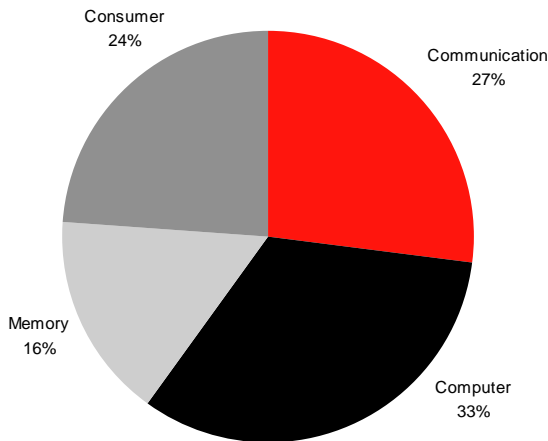
Source: Company data, Macquarie Research, October 2008

Fig 5 Sales breakdown by customer 2Q08



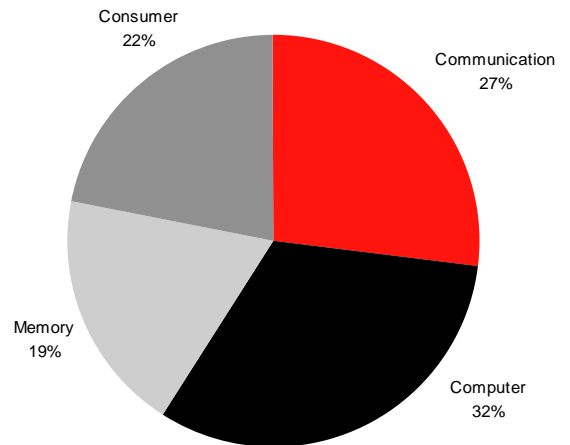
Source: Company data, Macquarie Research, October 2008

Fig 6 Sales breakdown by application 3Q08



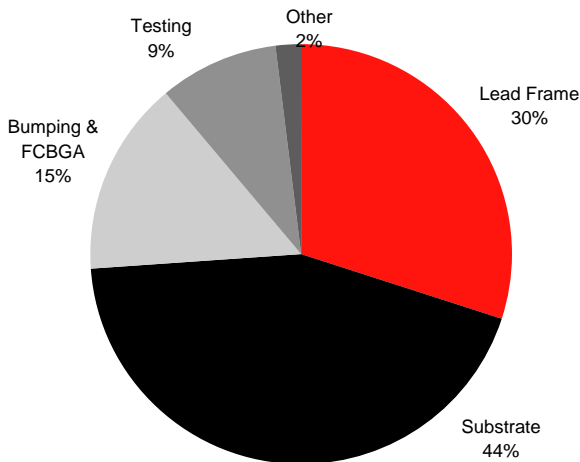
Source: Company data, Macquarie Research, October 2008

Fig 7 Sales breakdown by application 2Q08



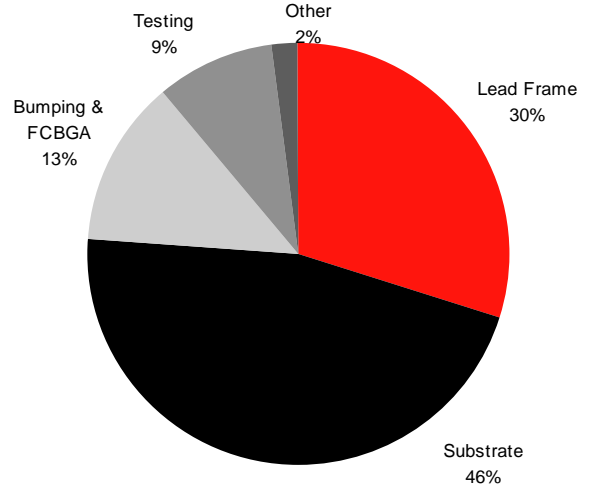
Source: Company data, Macquarie Research, October 2008

Fig 8 Sales breakdown by packaging type 3Q08



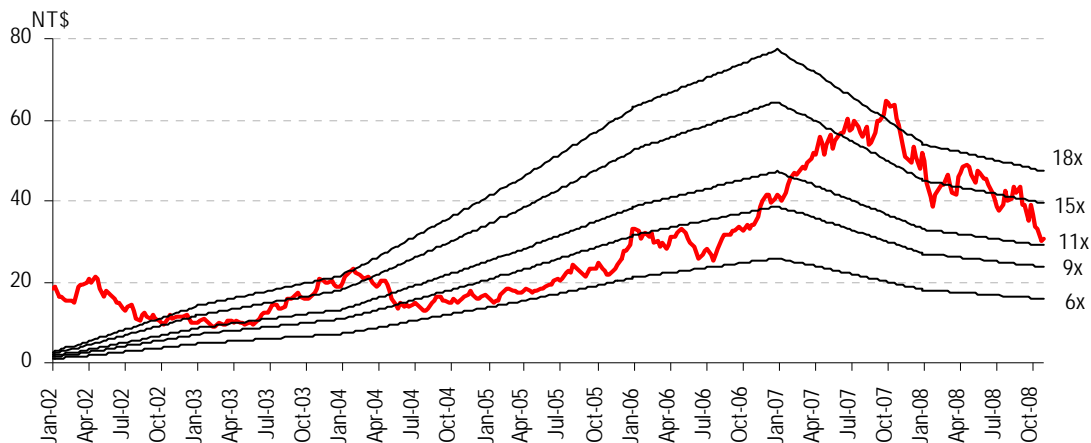
Source: Company data, Macquarie Research, October 2008

Fig 9 Sales breakdown by packaging type 2Q08



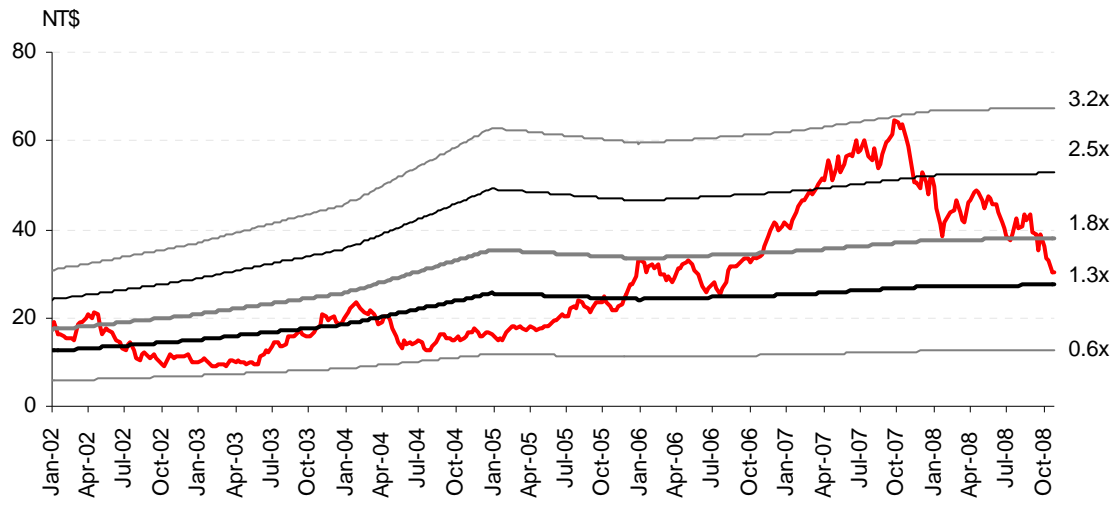
Source: Company data, Macquarie Research, October 2008

Fig 10 Forward PER band



Source: TEJ, Macquarie Research, October 2008

Fig 11 Forward P/BV band



Source: TEJ, Macquarie Research, October 2008

Fig 12 Earnings model

	FD basis										
Unit: NT\$ m	1Q08E	2Q08E	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007	2008E	2009E
Sales	14,931	15,852	17,242	15,171	12,864	13,118	14,219	14,780	64,622	63,196	54,981
-Dep & Amor.	-2,018	-2,073	-2,165	-2,169	-2,277	-2,261	-2,246	-2,232	-7,630	-8,425	-9,016
-Other costs	-9,842	-10,369	-11,038	-9,918	-8,338	-8,430	-8,910	-9,064	-41,838	-41,168	-34,741
COGS	-11,860	-12,442	-13,203	-12,087	-10,615	-10,691	-11,155	-11,295	-49,468	-49,592	-43,757
Gross profits	3,072	3,410	4,039	3,084	2,249	2,427	3,063	3,485	15,154	13,604	11,223
-Sales & Marketing	-227	-246	-245	-233	-221	-210	-235	-248	-973	-950	-914
-General & Admin.	-319	-305	-315	-321	-281	-278	-305	-317	-1,232	-1,260	-1,181
-R&D	-356	-378	-384	-357	-325	-326	-357	-365	-1,449	-1,474	-1,373
OPN expenses	-902	-929	-944	-910	-827	-814	-897	-930	-3,654	-3,685	-3,468
OPN profits	2,170	2,481	3,095	2,173	1,421	1,613	2,167	2,555	11,500	9,919	7,755
-Interest incomes	96	85	90	90	80	80	80	80	306	361	320
-Interest expenses	-16	-16	-28	-16	-16	-16	-16	-16	-64	-76	-64
-Others	-283	25	30	20	20	20	40	40	1,289	-208	120
-Investment incomes	16	90	298	80	100	150	320	150	2,087	484	720
Total non-op income/(loss)	-187	184	390	174	184	234	424	254	3,618	561	1,096
PBT	1,983	2,665	3,485	2,347	1,605	1,847	2,591	2,809	15,118	10,479	8,851
Tax credits/(payout)	-230	-266	-298	-258	-153	-175	-246	-267	-1,613	-1,052	-841
Net profits	1,753	2,398	3,187	2,089	1,453	1,671	2,345	2,542	13,505	9,427	8,011
EPS (NT\$)	0.56	0.76	1.01	0.66	0.46	0.53	0.74	0.81	4.40	2.99	2.54
Profitability	1Q08E	2Q08E	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007	2008E	2009E
Gross margin	20.6%	21.5%	23.4%	20.3%	17.5%	18.5%	21.5%	23.6%	23.5%	21.5%	20.4%
OPN margin	14.5%	15.6%	18.0%	14.3%	11.1%	12.3%	15.2%	17.3%	17.8%	15.7%	14.1%
PBT margin	13.3%	16.8%	20.2%	15.5%	12.5%	14.1%	18.2%	19.0%	23.4%	16.6%	16.1%
Net margin	11.7%	15.1%	18.5%	13.8%	11.3%	12.7%	16.5%	17.2%	20.9%	14.9%	14.6%
QoQ (%)	1Q08E	2Q08E	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007	2008E	2009E
Sales	-16%	6%	9%	-12%	-15%	2%	8%	4%	-	-	-
Gross Profit	-25%	11%	18%	-24%	-27%	8%	26%	14%	-	-	-
OPN profits	-29%	14%	25%	-30%	-35%	13%	34%	18%	-	-	-
PBT	-48%	34%	31%	-33%	-32%	15%	40%	8%	-	-	-
Net profits	-52%	37%	33%	-34%	-30%	15%	40%	8%	-	-	-
YoY (%)	1Q08E	2Q08E	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2007	2008E	2009E
Sales	-	-	-	-	-14%	-17%	-18%	-3%	15%	-2%	-13%
Gross Profit	-	-	-	-	-27%	-29%	-24%	13%	17%	-10%	-17%
OPN profits	-	-	-	-	-34%	-35%	-30%	18%	18%	-14%	-22%
PBT	-	-	-	-	-19%	-31%	-26%	20%	30%	-31%	-16%
Net profits	-	-	-	-	-17%	-30%	-26%	22%	24%	-30%	-15%

Source: Company data, Macquarie Research, October 2008

SPIL (2325 TT, Underperform, Target price: NT\$27.50)

Quarterly Results					Profit & Loss						
		2Q/08A	3Q/08E	4Q/08E	1Q/09E		2007A	2008E	2009E	2010E	
Revenue	m	15,852	17,242	15,171	12,864	Revenue	m	64,622	63,196	54,981	62,394
Gross Profit	m	3,410	4,039	3,084	2,249	Gross Profit	m	19,181	13,604	11,223	13,679
Operating Expenses	m	-929	-944	-910	-827	Operating Expenses	m	-3,201	-3,685	-3,468	-4,115
Operating Income	m	2,481	3,095	2,173	1,421	Operating Income	m	15,980	9,919	7,755	9,564
Net Non-operating income	m	184	389	174	184	Net Non-operating income	m	3,602	561	1,096	692
Pre-Tax Income	m	2,665	3,485	2,347	1,605	Pre-Tax Income	m	19,582	10,479	8,851	10,256
Tax Expense	m	-266	-298	-258	-154	Tax Expense	m	-2,091	-1,052	-851	-1,042
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	2,398	3,187	2,089	1,452	Reported Earnings	m	17,491	9,427	8,001	9,214
Reported Earnings (bonus exp)	m	2,398	3,187	2,089	1,452	Reported Earnings (bonus exp)	m	13,537	9,427	8,001	9,214
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	22.6	0.0	0.0	0.0
Adjusted Earnings	m	2,398	3,187	2,089	1,452	Adjusted Earnings	m	17,491	9,427	8,001	9,214
EBITDA	m	4,554	5,260	4,342	3,699	EBITDA	m	23,330	18,343	16,771	18,364
EPS (rep)	NT\$	0.75	1.01	0.66	0.46	EPS (rep)	NT\$	5.50	2.98	2.54	2.92
EPS pcp growth (rep)	%	-36.9	-37.1	-56.2	-16.3	EPS growth (rep)	%	42.1	-45.9	-14.7	15.2
EPS (rep bonus exp)	NT\$	0.75	1.01	0.66	0.46	EPS (rep bonus exp)	NT\$	4.26	2.98	2.54	2.92
EPS pcp growth (rep bonus exp)	%	-18.4	-18.7	-43.5	-16.3	EPS growth (rep bonus exp)	%	31.9	-30.1	-14.7	15.2
EPS (adj)	NT\$	0.75	1.01	0.66	0.46	EPS (adj)	NT\$	5.51	2.98	2.54	2.92
EPS pcp growth (adj)	%	-36.9	-37.1	-56.2	-16.3	EPS growth (adj)	%	41.6	-45.9	-14.8	15.2
Revenue pcp growth	%	4.1	-3.7	-14.4	-13.8	PE (rep)	x	5.5	10.2	12.0	10.4
Operating Income pcp growth	%	-35.3	-36.7	-48.8	-34.5	PE (rep bonus adj)	x	7.1	10.2	12.0	10.4
Reported Earnings pcp growth	%	-37.4	-37.0	-56.2	-17.2	PE (adj)	x	5.5	10.2	12.0	10.4
Gross Profit Margin	%	21.5	23.4	20.3	17.5	Total DPS	NT\$	4.35	2.37	2.01	2.32
Operating Income Margin	%	15.6	18.0	14.3	11.1	Total Div Yield	%	14.3	7.8	6.6	7.6
Reported Earnings Margin	%	15.1	18.5	13.8	11.3	Weighted Average Shares	m	3,180	3,168	3,153	3,153
EBITDA Margin	%	28.7	30.5	28.6	28.8	Period End Shares	m	3,149	3,153	3,153	3,153
Profit and Loss Ratios		2007A	2008E	2009E	2010E	Cashflow Analysis		2007A	2008E	2009E	2010E
Revenue Growth	%	14.7	-2.2	-13.0	13.5	Reported Earnings	m	17,491	9,427	8,001	9,214
Gross Profit Growth	%	26.4	-29.1	-17.5	21.9	Depreciation & Amortisation	m	7,350	8,425	9,016	8,800
Operating Income Growth	%	30.6	-37.9	-21.8	23.3	Chgs in Working Cap	m	-776	2,294	4	-543
Reported Earnings Growth	%	32.8	-46.1	-15.1	15.2	Other	m	2,774	850	851	1,042
EBITDA Growth	%	23.2	-21.4	-8.6	9.5	Operating Cashflow	m	26,839	20,996	17,872	18,513
Gross Profit Margin	%	29.7	21.5	20.4	21.9	Acquisitions	m	1,289	0	0	0
Operating Income Margin	%	24.7	15.7	14.1	15.3	Capex	m	-11,424	-10,776	-8,000	-8,000
Reported Earnings Margin	%	27.1	14.9	14.6	14.8	Asset Sales	m	8,228	0	0	0
EBITDA Margin	%	36.1	29.0	30.5	29.4	Other	m	-3,052	-115	0	0
Payout Ratio	%	78.9	79.4	79.2	79.2	Investing Cashflow	m	-4,959	-10,891	-8,000	-8,000
EV/EBITDA	x	2.7	3.8	4.1	3.8	Dividend (Ordinary)	m	-9,974	-13,836	-7,457	-6,336
EV/EBIT	x	3.7	6.9	8.5	7.2	Equity Raised	m	0	0	0	0
Balance Sheet Ratios						Debt Movements	m	-47	-5	0	0
ROE	%	26.5	14.0	12.1	13.4	Other	m	-1,208	-1,274	-1,147	-0
ROA	%	19.7	11.9	9.4	11.2	Financing Cashflow	m	-11,229	-15,115	-8,604	-6,337
ROIC	%	25.8	17.6	13.4	16.7	Net Chg in Cash/Debt	m	10,650	-5,010	1,268	4,176
Net Debt/Equity	%	-26.3	-20.3	-22.8	-28.0	Free Cashflow	m	15,415	10,220	9,872	10,513
Interest Cover	x	nmf	nmf	nmf	nmf	FCF per Share	NT\$	4.85	3.23	3.13	3.33
Price/Book	x	1.4	1.5	1.4	1.3	P/FCF	x	6.3	9.4	9.7	9.1
Book Value per Share	NT\$	21.9	20.9	21.2	22.6	Balance Sheet		2007A	2008E	2009E	2010E
						Cash	m	21,129	16,376	18,184	22,935
						Receivables	m	10,917	9,357	9,116	10,142
						Inventories	m	3,243	3,057	2,857	3,266
						Investments	m	0	0	0	0
						Fixed Assets	m	36,287	39,431	38,478	37,629
						Intangibles	m	0	0	0	0
						Other Assets	m	12,733	13,881	13,881	13,881
						Total Assets	m	84,309	82,103	82,517	87,853
						Payables	m	6,122	6,668	6,232	7,123
						Short Term Debt	m	0	0	0	0
						Long Term Debt	m	2,996	2,991	2,991	2,991
						Provisions	m	0	0	4	4
						Other Liabilities	m	6,283	6,617	6,621	6,621
						Total Liabilities	m	15,401	16,276	15,848	16,739
						Total S/H Equity	m	68,908	65,826	66,678	71,122
						Total Liab & S/H Funds	m	84,309	82,103	82,526	87,862

All figures in NT\$ unless noted.
Source: Macquarie Research, October 2008

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p>Macquarie - Australia/New Zealand Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts) Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts) Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of benchmark return Neutral (Hold) – return within 5% of benchmark return Underperform (Sell) – return >5% below benchmark return</p> <p>Recommendations – 12 months</p> <p>Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Australian/NZ/Canada stocks only</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / epowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions – For quarter ending 30 September 2008

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	43.17%	61.57%	63.08%	53.60%	71.54%	43.00%
Neutral	41.37%	16.43%	30.77%	37.60%	24.61%	48.00%
Underperform	15.47%	22.00%	6.15%	8.80%	3.85%	9.00%

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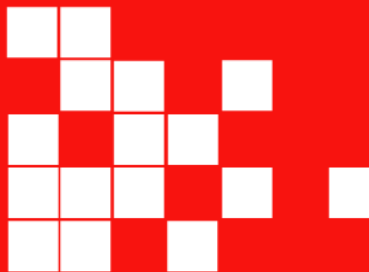
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