Taiwan **Notebook ODM**

Patty Liu
(886 2) 2175 7049
Technology
15 October 2008

SO WHAT? THE BNP PARIBAS ANGLE **INDUSTRY OUTLOOK: ←→**

- Our EPS is lower than consensus as we are more negative on softening of demand than consensus.
- Our target prices are also lower than consensus on more conservative target multiples.

Stock Picks

Company	BBG code	Rec	Share price (TWD)	Target price (TWD)	Upside/ (downside) (%)	Mkt cap (USD m)	Rec P/E 2008E (x)	Rec P/E 2009E (x)
Wistron	3231 TT	BUY	34.85	42.00	20.5	1,633	7.3	6.5
Compal	2324 TT	BUY	21.80	27.00	23.9	2,655	6.5	6.5
Quanta	2382 TT	HOLD	32.30	34.00	5.3	3,643	7.3	8.4

Source: BNP Paribas estimates

- **We see clear deceleration in regular NB growth due to softer economy and cannibalization by Netbook.**
- **Taiwan NB ODM 3Q08 shipment growth of 23.6% in line. Wistron beat guidance; Quanta, Compal missed guidance.**
- **Cut earnings by 11-36% in 2009-10E to reflect deteriorating economic outlook. Trading at 6-8x 09 PE. TP at 8-9x 09 P/E.**

NB growth deceleration under way

Mixed September and 3Q08 results for Notebook ODMs

Taiwan's top-tier NB ODMs reported in-line 3Q08 shipment growth of 23.6% q-q with a significant uptick in September (+22% m-m) due to new Montevina platform launch and low-price Notebook contribution. Without Netbook contribution, 3Q08 growth would have been 12.7% q-q and 22.3% y-y, a clear deceleration from 41% y-y growth in 1H08. Among NB ODMs, Wistron reported the strongest 3Q shipment growth of 35% q-q, exceeding 20% guidance, mainly driven by share gain and strength from Acer and HP. Quanta's 3Q08 shipment growth of 11.5% was lower than its forecast of 15-20%, mainly due to new Macbook delay from August to October. Compal also reported slightly lower than the guided shipment of 15% q-q.

Cautious on holiday demand

Visibility for late November and December shipments remains low as channel vendors are reluctant to bear high year-end inventory and they are monitoring sell-through closely before placing orders for the holiday season. We expect NB ODM shipment will increase 5-8% q-q in 4Q08, mainly supported by Netbook demand as most major PC OEMs are aggressive in bundling with telecom operators and/or introducing new models. For 2008 NB shipments, we believe Compal will record 5% lower than its lowered guidance of 28m-29m units. Quanta should miss its 40m units guidance by 5-10%. Wistron should be slightly ahead of market consensus of 21m units in 2008

Conservative assumptions; TP at 8-9x 2009 P/E

With deteriorating economic outlook globally, we have factored in a more conservative assumption than the company had guided, including NB shipment growth of 10-20% (Netbook being the key driver), but at the expense of a more rapid ASP decline, a more conservative margin outlook, and higher funding cost. We lower EPS by 11-36 % for Taiwan NB ODMs. Reiterate BUY for Wistron as it is the only NB ODM that will have double digit earnings growth of ~13% in 2009E due to diversified product portfolio compared with earnings contraction for Compal and Quanta. We reiterate BUY for Compal and HOLD for Quanta for their strong balance sheet and high dividend yield of 8-10%.

Patty Liu (886 2) 2175 7049
BNP Paribas Securities (Taiwan) Co Ltd
patty.liu@asia.bnpparibas.com

Rick Chen (886 2) 2175 7065
BNP Paribas Securities (Taiwan) Co Ltd
rick.chen@asia.bnpparibas.com

(Full BNP Paribas technology research team list inside)

NB ODM Shipment 08/09E

Note book	1Q08 (k units)	2Q08 (k units)	3Q08 (k units)	4Q08E (k units)
Pegatron	2,170	1,825	2,275	2,375
Change (q-q %)	(15.7)	(15.9)	24.7	4.4
Compal	6,170	6,150	7,000	7,800
Change (q-q %)	(4.9)	(0.3)	13.8	11.4
Inventec	3,050	3,200	4,600	4,900
Change (q-q %)	8.9	4.9	43.8	6.5
Quanta	8,000	8,700	9,700	10,650
Change (q-q %)	(14.9)	8.7	11.5	9.8
Wistron	4,300	4,600	6,200	6,500
Change (q-q %)	17.2	7.0	34.8	4.8
Total 1st tier	**24,390**	**25,475**	**31,475**	**33,875**
Change (q-q %)	(2.2)	4.4	23.6	7.6
Total 1st tier w/o netbooks	**23,690**	**24,475**	**27,575**	**28,675**
Change (q-q %)	NA	3.3	12.7	4.0

Source: BNP Paribas estimates

Earning Revision

		New EPS 08E (TWD)	New EPS 09E (TWD)	New EPS 10E (TWD)	% revision 08E (%)	% revision 09E (%)	% revision 10E (%)
2324 TT	Compal	3.34	3.33	3.84	(5.2)	(14.1)	(12.0)
2382 TT	Quanta	4.41	3.84	4.07	(16.0)	(31.1)	(35.5)
3231 TT	Wistron	4.78	5.40	6.38	0.0	(11.4)	(17.3)

Source: BNP Paribas estimates

Mixed September and 3Q08 results for Notebook ODMs

Taiwan's top-tier NB ODMs reported in-line 3Q08 shipment growth of 23.6% q-q and 39.6% y-y with a significant uptick in September (+22% m-m) due to new Montevina platform launch and contribution from low-price Notebook. Without Netbook contribution 3Q08 growth would have been 12.7% q-q and 22.3% y-y, a clear deceleration from 44.7% and 37.3% y-y growth in 1Q and 2Q08.

Quanta (2382 TT; HOLD; TP: TWD34.00)

Expect Quanta to miss 40m target by 5-10%; little or no growth in regular NB in 2008

Quanta reported NB shipment of 3.3m units in September, up 6.5% m-m, much below then its peers. This has resulted in 11.5% q-q shipment growth in 3Q08, lower than its guidance of 15-20% primarily due to delay of Macbook shipments from August to October, and more conservative order placements in general. Shipment of Acer Aspire One was on track to deliver more than 2m units in 3Q08. With 4Q08 shipment of 5-10% q-q, in our estimate, we expect Quanta will miss its 2008 40m shipment target by 5-10%.

Excluding Aspire One, Quanta's shipment for regular NB actually declined by 13-15% q-q in 3Q08 and for the full year 2008, its regular notebook might not post any growth because of a soft 2H08.

Quanta also reported September revenue of TWD61.5b, up 0.3% m-m and down 22.6% y-y. With product-mix change toward lower-ASP Aspire One, we see sales growth trailing behind shipment growth in September and 3Q08. We believe the trend is likely to continue in 4Q08.

Compal (2324 TT; BUY, TP: TWD27.00)

Expect Compal to miss lowered target of 28m-29m units by ~5% in 2008E

Compal reported NB shipment of 2.6m units in September, up 26.8% m-m and 23.8% y-y. Its 3Q08 shipment of 7m units, up 13.8% q-q, was slightly lower than its guidance of 15% q-q. September sales of TWD46.25b were up 32.2% m-m and 10.3% y-y. Its 3Q08 sales of TWD118.2b, up 27.1% q-q, are better than its NB shipment growth due to contribution of LCD TV shipment, which is back-end (2H08) loaded. Compal currently has two key Japanese customers and likely to add another late 2008 or early 2009.

With 4Q08 shipment growth of 10-12% q-q, in our estimate, we expect 2008 NB shipment (including 700,000 Netbooks for Dell) will be about 5% lower than its downward revised shipment guidance of 28m-29m due to sluggish corporate NB demand.

Wistron (3231 TT; BUY; TP: TWD42.00)

Wistron's strong momentum remains; expect to beat 21m units consensus estimate

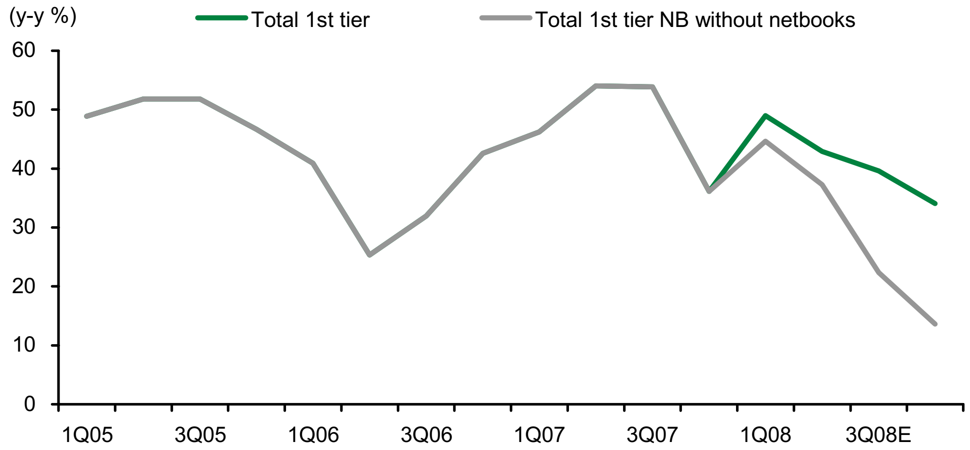
Wistron reported NB shipment of 2.5m units in September, up 47.1% m-m and 108.3% y-y. This has resulted in 3Q08 shipment growth of 34.8% q-q (92.5% y-y), higher than our previously forecast 25-30% q-q mainly due to share gain and strength from HP and Acer. Wistron reported September sales of TWD 49.81b, up 44.5% m-m and 68.7% y-y, mainly driven by its strong NB shipment growth and contribution from its newly acquired LiteOn Tech display units, which contributed TWD3b sales, or 6% of September consolidated sales. It is the only top-tier NB ODM besides Inventec which was able to maintain its original full-year shipment guidance of 20m. It could possibly reach 21.5m units in 2008. For 4Q08, we expect shipment to increase 5% q-q on a high 3Q base.

Exhibit 1: Taiwan NB ODM September Shipment And Sales

	Sep shipment	Change		Sales	Change	
	('000 units)	*(m-m %)*	*(y-y %)*	(TWD b)	*(m-m %)*	*(y-y %)*
Pegatron	875	*20.7*	*20.7*	53.89	*9.0*	*na*
Compal	2,600	*26.8*	*23.8*	40.51	*11.4*	*75.7*
Inventec	1,800	*20.0*	*80.0*	46.25	*32.2*	*10.3*
Quanta	3,300	*6.5*	*6.5*	61.54	*0.3*	*(22.6)*
Wistron	2,500	*47.1*	*108.3*	49.81	*44.5*	*67.8*

Source: BNP Paribas estimates

Exhibit 2: Taiwan NB ODM Shipment



Sources: Company Data; BNP Paribas estimates

Cautious on holiday demand

We expect 4Q08 NB ODM shipment to increase 5-8% q-q in 4Q08, mainly supported by Netbook demand as most major PC OEMs are aggressive in bundling with telecom operators and/or introducing new models. For Acer Aspire One, we believe shipment will expand 35-40% to 3m units in 4Q08 and Asus will at least maintain its 1.7m units in 3Q08. Lenovo and Dell are also introducing its Netbook. So we believe 4Q08 shipment growth of 5-8% is highly likely.

For 2008 NB shipment, we believe Compal will be about 5% lower than its lowered guidance of 28m-29m units. Quanta will also miss its 40m units guidance by 5-10%. Wistron should be slightly ahead of its guidance of 21m in 2008.

As the recent NB ODM shipment figures are sell-in numbers rather than sell-through, we believe channel vendors are closely monitoring holiday demand and are reluctant to bear high year-end inventory. So visibility for late November and December shipment remains very low now.

Exhibit 3: Taiwan NB ODM Shipment 2008-09E

	1Q08 ('000 units)	2Q08 ('000 units)	3Q08 ('000 units)	4Q08E ('000 units)	2008E ('000 units)	*Change (y-y %)*	2009E Co guidance
Pegatron*	2,170	1,825	2,275	2,375	8,645	*22.2*	na
Change (q-q %)	*(15.7)*	*(15.9)*	*24.7*	*4.4*			
Compal	6,170	6,150	7,000	7,800	27,120	*20.0*	38-40m
Change (q-q %)	*(4.9)*	*(0.3)*	*13.8*	*11.4*			
Inventec	3,050	3,200	4,600	4,900	15,750	*79.4*	na
Change (q-q %)	*8.9*	*4.9*	*43.8*	*6.5*			
Quanta	8,000	8,700	9,700	10,650	37,050	*16.5*	Inline with industry
Change (q-q %)	*(14.9)*	*8.7*	*11.5*	*9.8*			
Wistron	4,300	4,600	6,200	6,500	21,600	*89.1*	25-28m
Change (q-q %)	*17.2*	*7.0*	*34.8*	*4.8*			
Total 1st tier	**24,390**	**25,475**	**31,475**	**33,875**	**110,165**	***34.9***	
Change (q-q %)	*(2.2)*	*4.4*	*23.6*	*7.6*			
Total 1st tier w/o netbooks	**23,690**	**24,475**	**27,575**	**28,675**	**104,415**	***27.8***	
Change (q-q %)		*3.3*	*12.7*	*4.0*			

* exclude Eee PC shipment
Source: BNP Paribas estimates;

We factor in conservative assumptions

With economic outlook deteriorating globally, we have factored in a more conservative assumption than the company earlier guided. We are assuming NB shipment to increase 10-15% for top-tier NB ODMs with Netbook accounting for most of the unit growth, but at the expense of a more severe ASP decline. We also factor in a more conservative margin outlook as we expect greater pricing pressure from PC OEMs as a result of softer demand and higher funding cost due to credit crunch.

Our 2009 assumption for each NB ODM is as followed:

Quanta’s 2009 earnings should decline 12% y-y on lower NB shipment growth and lack of FX gain (31% of 1H08 earnings)

Quanta: We expect 5-10% regular NB shipment growth. We also expect Netbook shipment to expand 60% from 5.5m-6.0m units in 2008. The company has yet to give 2009 shipment guidance, but indicated its NB shipment will increase in line with the industry. We believe it will only be achieved if the shipment includes Netbooks in 2009. As the largest NB ODM, lack of next key growth driver beyond NB remains our key concern for Quanta, and is now clearly hindering the growth prospects of the company in a soft economy.

In 2009, we expect its top line to expand 4% y-y, but earnings to contract 12% y-y due to slower NB growth, product-mix change toward Netbook, and lack of FX gain (TWD2.8b in 1H08, which accounted for 31% of earnings in 1H08 or 0.36% of net margin). Factoring in all these assumptions, we are trimming Quanta’s 2008-10E EPS by 16.0%, 31.1% and 35.5% to TWD4.41, TWD3.84 and TWD4.07, respectively.

Compal: We expect Compal’s total NB shipment will be 34m-35m units, up ~25% y-y, with regular NB increasing 10-15% y-y and Netbook shipment of 4m-5m units, lower than its guidance of 38m-40m units due to global economic slowdown, which also affects the demand for consumer models and cannibalization effect from Netbooks. We expect little improvement from its non-core investment (Vibo, Toppoly and Compal Communication) in 2009 as we do not expect substantial improvement in panel and handset market outlooks. We, therefore, lower Compal’s EPS by 5.2%, 14.1% and 12% in 2008-10E to TWD3.34, TWD3.33 and TWD3.84, accordingly.

Wistron: We expect 15% unit growth for Wistron's total NB shipments, including 2m units of Netbook, at the low end of its guidance of 25m-28m units. Increase in LCD TV outsourcing, market-share gain in desktop, and new monitor business (5-7% of sales in 2009E) will be growth drivers in 2009 despite a soft economy to contribute to earnings growth of 13%. We believe Wistron will be the only NB ODM to post double-digit bottom-line growth. So we lower Wistron's EPS by 11.4% and 17.3% for 2009 and 2010 to TWD5.40 and TWD6.38.

Benefiting from its diversified product portfolio, we expect earnings growth of 13% in 2009E vs Quanta and Compal's earnings contraction

In conclusion, we lower EPS by 11.4-35.5% in 2009-10E for NB ODMs to reflect a more conservative economic outlook, Notebook growth, and higher funding cost. Reiterate BUY for Wistron and Compal, and HOLD for Quanta. Strong balance sheet, net cash position and dividend yield of 8-10% for Compal and Quanta should provide downside support for the share price.

Exhibit 4: Earning Revision

		New EPS			*New EPS*		*Revision*		
BBG code	**Company**	**2008E (TWD)**	**2009E (TWD)**	**2010E (TWD)**	***2009E (y-y %)***	***2010E (y-y %)***	***2008E (%)***	***2009E (%)***	***2010E (%)***
2324 TT	Compal Electronics	3.34	3.33	3.84	*(0.4)*	*15.3*	*(5.2)*	*(14.1)*	*(12.0)*
2382 TT	Quanta Computer	4.41	3.84	4.07	*(12.9)*	*6.0*	*(16.0)*	*(31.1)*	*(35.5)*
3231 TT	Wistron Corp	4.78	5.40	6.38	*13.0*	*18.1*	*0.0*	*(11.4)*	*(17.3)*

Source: BNP Paribas estimates

Exhibit 5: BNPP Forecast vs Consensus

		Consensus EPS			BNPP above/below consensus		
BBG code	**Company**	**2008E (TWD)**	**2009E (TWD)**	**2010E (TWD)**	***2008E (%)***	***2009E (%)***	***2010E (%)***
2324 TT	Compal Electronics	3.41	3.74	3.98	(1.8)	(10.9)	(3.5)
2382 TT	Quanta Computer	5.09	5.38	5.72	(13.4)	(28.7)	(28.9)
3231 TT	Wistron Corporation	5.12	6.12	6.93	(6.7)	(11.7)	(7.9)

Sources: Bloomberg; BNP Paribas estimates

FINANCIAL STATEMENTS

Quanta Computer

Profit and Loss (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Revenue	537,681	777,436	770,829	802,791	861,943
Cost of sales ex depreciation	(496,142)	(732,528)	(727,531)	(757,598)	(813,652)
Gross profit ex depreciation	41,539	44,908	43,298	45,193	48,291
Other operating income	-	-	-	-	-
Operating costs	(19,868)	(20,527)	(19,187)	(19,955)	(21,150)
Operating EBITDA	**21,671**	**24,381**	**24,111**	**25,238**	**27,141**
Depreciation	(11,118)	(4,630)	(5,921)	(7,749)	(9,211)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	**10,553**	**19,751**	**18,190**	**17,489**	**17,931**
Net financing costs	(1,622)	(1,269)	(827)	(822)	(508)
Associates	526	328	(165)	-	-
Recurring non operating income	2,899	5,374	4,029	1,516	1,854
Non recurring items	-	-	-	-	-
Profit before tax	**12,355**	**24,183**	**21,227**	**18,184**	**19,276**
Tax	(3,143)	(4,569)	(5,148)	(4,182)	(4,434)
Profit after tax	**9,213**	**19,614**	**16,079**	**14,001**	**14,843**
Minority interests	**3,707**	**(1,160)**	**-**	**-**	**-**
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	**12,920**	**18,455**	**16,079**	**14,001**	**14,843**
Non recurring items & goodwill (net)	**30**	**(0)**	**(0)**	**(0)**	**(0)**
Recurring net profit	**12,950**	**18,455**	**16,079**	**14,001**	**14,843**
Per share (TWD)					
Recurring EPS *	3.62	5.10	4.41	3.84	4.07
Reported EPS	3.61	5.10	4.41	3.84	4.07
DPS	2.59	2.44	2.90	3.32	3.79
Growth					
Revenue (%)	12.2	44.6	(0.8)	4.1	7.4
Operating EBITDA (%)	3.6	12.5	(1.1)	4.7	7.5
Operating EBIT (%)	42.3	87.2	(7.9)	(3.9)	2.5
Recurring EPS (%)	15.4	40.7	(13.5)	(12.9)	6.0
Reported EPS (%)	15.5	41.0	(13.5)	(12.9)	6.0
Operating performance					
Gross margin inc depreciation (%)	5.7	5.2	4.8	4.7	4.5
Operating EBITDA margin (%)	4.0	3.1	3.1	3.1	3.1
Operating EBIT margin (%)	2.0	2.5	2.4	2.2	2.1
Net margin (%)	2.4	2.4	2.1	1.7	1.7
Effective tax rate (%)	25.4	18.9	24.3	23.0	23.0
Dividend payout on recurring profit (%)	71.4	47.9	65.9	86.5	93.3
Interest cover (x)	8.6	20.1	26.7	23.1	38.9
Inventory days	31.8	29.7	33.8	28.8	28.4
Debtor days	51.7	47.2	55.4	49.0	48.3
Creditor days	64.0	60.6	71.8	62.2	61.4
Operating ROIC (%)	7.8	30.1	23.7	22.3	22.0
Operating ROIC - WACC (%)	(1.2)	21.0	14.6	13.3	13.0
ROIC (%)	8.9	29.8	22.7	19.3	19.5
ROIC - WACC (%)	(0.2)	20.8	13.6	10.3	10.5
ROE (%)	13.1	21.5	16.5	13.8	14.5
ROA (%)	3.4	7.5	5.3	4.8	5.0

** Pre exceptional, pre-goodwill and fully diluted*

Sources: Quanta Computer; BNP Paribas estimates

Gross margin continues to decline as competition intensifies

Quanta Computer

Cash Flow (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Recurring net profit	12,950	18,455	16,079	14,001	14,843
Depreciation	11,118	4,630	5,921	7,749	9,211
Associates & minorities	(4,233)	832	165	-	-
Other non-cash items	4,017	(849)	-	-	-
Recurring cash flow	**23,853**	**23,067**	**22,165**	**21,750**	**24,053**
Change in working capital	(13,571)	(1,011)	6,500	(478)	(1,050)
Capex - maintenance	(3,335)	(3,594)	(4,182)	(3,000)	(3,000)
Capex - new investment	(7,783)	(8,386)	(9,758)	(7,000)	(7,000)
Free cash flow to equity	**(837)**	**10,076**	**14,726**	**11,272**	**13,003**
Net acquisitions & disposals	(4,689)	423	22	-	-
Dividends paid	(9,242)	(8,834)	(10,600)	(12,113)	(13,842)
Non recurring cash flows	11,120	7,314	162	-	-
Net cash flow	**(3,648)**	**8,979**	**4,310**	**(841)**	**(839)**
Equity finance	65,614	519	-	-	-
Debt finance	(87,922)	(5,817)	10,566	(16,500)	(7,700)
Movement in cash	**(25,956)**	**3,681**	**14,876**	**(17,341)**	**(8,539)**
Per share (TWD)					
Recurring cash flow per share	6.67	6.37	6.07	5.96	6.59
FCF to equity per share	(0.23)	2.78	4.03	3.09	3.56

Balance Sheet (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Working capital assets	120,354	208,326	167,916	175,011	187,999
Working capital liabilities	(99,628)	(186,589)	(152,679)	(159,297)	(171,235)
Net working capital	**20,726**	**21,737**	**15,236**	**15,714**	**16,764**
Tangible fixed assets	28,386	35,736	43,754	46,006	46,795
Operating invested capital	**49,111**	**57,473**	**58,991**	**61,720**	**63,560**
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	12,049	11,643	11,456	11,456	11,456
Other assets	4,009	4,049	3,887	3,887	3,887
Invested capital	**65,170**	**73,165**	**74,334**	**77,063**	**78,903**
Cash & equivalents	(62,375)	(66,056)	(80,932)	(63,591)	(55,052)
Short term debt	41,142	39,235	37,400	26,180	20,944
Long term debt *	8,842	5,198	17,600	12,320	9,856
Net debt	**(12,390)**	**(21,622)**	**(25,932)**	**(25,091)**	**(24,252)**
Deferred tax	-	-	-	-	-
Other liabilities	311	44	44	44	44
Total equity	77,250	94,743	100,221	102,110	103,111
Minority interests	-	-	-	-	-
Invested capital	**65,170**	**73,165**	**74,334**	**77,063**	**78,903**

** Includes convertibles and preferred stock which is being treated as debt*

	2006A	2007A	2008E	2009E	2010E
Per share (TWD)					
Book value per share	21.61	26.16	27.46	27.98	28.25
Tangible book value per share	21.61	26.16	27.46	27.98	28.25
Financial strength					
Net debt/equity (%)	(16.0)	(22.8)	(25.9)	(24.6)	(23.5)
Net debt/total assets (%)	(5.5)	(6.6)	(8.4)	(8.4)	(7.9)
Current ratio (x)	1.3	1.2	1.3	1.3	1.3
CF interest cover (x)	5.3	15.5	30.6	23.2	40.4

Strong balance sheet with consistent net cash position

Valuation	2006A	2007A	2008E	2009E	2010E
Recurring P/E (x) *	8.9	6.3	7.3	8.4	7.9
Recurring P/E @ target price (x) *	9.4	6.7	7.7	8.9	8.4
Reported P/E (x)	8.9	6.3	7.3	8.4	7.9
Dividend yield (%)	8.0	7.6	9.0	10.3	11.7
P/CF (x)	4.8	5.1	5.3	5.4	4.9
P/FCF (x)	neg	11.6	8.0	10.5	9.1
Price/book (x)	1.5	1.2	1.2	1.2	1.1
Price/tangible book (x)	1.5	1.2	1.2	1.2	1.1
EV/EBITDA (x) **	5.3	3.3	3.3	3.5	3.2
EV/EBITDA @ target price (x) **	5.5	3.5	3.6	3.7	3.4
EV/invested capital (x)	1.6	1.3	1.2	1.2	1.2

** Pre exceptional, pre-goodwill and fully diluted*
*** EBITDA includes associate income and recurring non-operating income*

Sources: Quanta Computer; BNP Paribas estimates

Wistron Corp

Profit and Loss (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Revenue	221,054	286,754	436,509	510,767	619,291
Cost of sales ex depreciation	(204,079)	(265,658)	(408,262)	(478,346)	(581,109)
Gross profit ex depreciation	16,975	21,097	28,247	32,420	38,182
Other operating income	-	-	-	-	-
Operating costs	(7,785)	(10,344)	(16,548)	(18,379)	(21,589)
Operating EBITDA	**9,190**	**10,753**	**11,699**	**14,041**	**16,594**
Depreciation	(2,230)	(2,736)	(3,108)	(3,920)	(4,814)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	**6,959**	**8,017**	**8,591**	**10,121**	**11,780**
Net financing costs	(989)	(628)	(549)	(736)	(826)
Associates	152	287	245	280	338
Recurring non operating income	402	363	681	420	600
Non recurring items	-	-	-	-	-
Profit before tax	**6,524**	**8,038**	**8,968**	**10,085**	**11,892**
Tax	(1,249)	(1,322)	(1,633)	(1,815)	(2,141)
Profit after tax	**5,275**	**6,716**	**7,335**	**8,269**	**9,751**
Minority interests	**52**	**(111)**	**(86)**	**(76)**	**(76)**
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	**5,327**	**6,605**	**7,249**	**8,193**	**9,675**
Non recurring items & goodwill (net)	**-**	**-**	**-**	**-**	**-**
Recurring net profit	**5,327**	**6,605**	**7,249**	**8,193**	**9,675**
Per share (TWD)					
Recurring EPS *	4.08	4.72	4.78	5.40	6.38
Reported EPS	4.08	4.72	4.78	5.40	6.38
DPS	1.35	1.99	2.34	2.61	3.24
Growth					
Revenue (%)	34.2	29.7	52.2	17.0	21.2
Operating EBITDA (%)	62.9	17.0	8.8	20.0	18.2
Operating EBIT (%)	83.0	15.2	7.2	17.8	16.4
Recurring EPS (%)	56.7	15.8	1.3	13.0	18.1
Reported EPS (%)	56.7	15.8	1.3	13.0	18.1
Operating performance					
Gross margin inc depreciation (%)	6.7	6.4	5.8	5.6	5.4
Operating EBITDA margin (%)	4.2	3.7	2.7	2.7	2.7
Operating EBIT margin (%)	3.1	2.8	2.0	2.0	1.9
Net margin (%)	2.4	2.3	1.7	1.6	1.6
Effective tax rate (%)	19.1	16.4	18.2	18.0	18.0
Dividend payout on recurring profit (%)	33.1	42.2	49.0	48.3	50.8
Interest cover (x)	7.6	13.8	17.3	14.7	15.4
Inventory days	29.1	25.3	25.8	29.0	28.5
Debtor days	31.0	49.1	57.6	64.5	63.5
Creditor days	60.2	64.0	65.0	72.9	71.7
Operating ROIC (%)	41.2	29.8	19.1	18.2	18.9
Operating ROIC - WACC (%)	29.6	18.2	7.5	6.6	7.2
ROIC (%)	32.4	25.8	18.2	17.1	18.1
ROIC - WACC (%)	20.8	14.2	6.5	5.5	6.5
ROE (%)	19.7	21.1	20.0	20.0	21.3
ROA (%)	8.8	7.9	6.0	5.5	5.6

** Pre exceptional, pre-goodwill and fully diluted*

Sources: Wistron Corp; BNP Paribas estimates

Relative strong revenue momentum to 2010E due to diversified

Wistron Corp

Cash Flow (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Recurring net profit	5,327	6,605	7,249	8,193	9,675
Depreciation	2,230	2,736	3,108	3,920	4,814
Associates & minorities	(204)	(176)	(159)	(204)	(262)
Other non-cash items	120	31	(86)	(76)	(76)
Recurring cash flow	**7,474**	**9,197**	**10,111**	**11,834**	**14,151**
Change in working capital	(155)	(15,071)	(10,255)	(4,532)	(6,617)
Capex - maintenance	(836)	(1,387)	(1,374)	(1,549)	(1,120)
Capex - new investment	(1,951)	(3,237)	(3,207)	(3,615)	(2,612)
Free cash flow to equity	**4,531**	**(10,498)**	**(4,724)**	**2,138**	**3,802**
Net acquisitions & disposals	(234)	(745)	245	280	338
Dividends paid	(1,765)	(2,789)	(3,549)	(3,961)	(4,912)
Non recurring cash flows	259	10	(119)	(75)	(77)
Net cash flow	**2,791**	**(14,022)**	**(8,148)**	**(1,619)**	**(850)**
Equity finance	61	1,105	1,374	(0)	-
Debt finance	(970)	7,821	1,510	1,737	1,332
Movement in cash	**1,883**	**(5,096)**	**(5,263)**	**118**	**482**
Per share (TWD)					
Recurring cash flow per share	5.72	6.57	6.67	7.80	9.33
FCF to equity per share	3.47	(7.50)	(3.12)	1.41	2.51

Balance Sheet (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Working capital assets	43,810	81,143	125,457	146,877	178,186
Working capital liabilities	(41,803)	(64,066)	(98,125)	(115,014)	(139,705)
Net working capital	**2,006**	**17,077**	**27,332**	**31,864**	**38,481**
Tangible fixed assets	11,993	13,881	15,354	16,598	15,516
Operating invested capital	**13,999**	**30,958**	**42,686**	**48,462**	**53,997**
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	2,727	3,616	3,616	3,616	3,616
Other assets	2,399	2,388	2,508	2,583	2,660
Invested capital	**19,125**	**36,963**	**48,810**	**54,661**	**60,274**
Cash & equivalents	(12,728)	(7,632)	(2,369)	(2,487)	(2,969)
Short term debt	2,846	10,069	11,579	13,316	14,648
Long term debt *	56	-	-	-	-
Net debt	**(9,826)**	**2,437**	**9,210**	**10,829**	**11,679**
Deferred tax	-	-	-	-	-
Other liabilities	121	776	776	776	776
Total equity	28,829	33,750	38,824	43,056	47,819
Minority interests	-	-	-	-	-
Invested capital	**19,125**	**36,963**	**48,810**	**54,661**	**60,274**

** Includes convertibles and preferred stock which is being treated as debt*

Per share (TWD)					
Book value per share	22.07	24.12	25.60	28.39	31.53
Tangible book value per share	22.07	24.12	25.60	28.39	31.53
Financial strength					
Net debt/equity (%)	(34.1)	7.2	23.7	25.2	24.4
Net debt/total assets (%)	(13.3)	2.2	6.2	6.3	5.8
Current ratio (x)	1.3	1.2	1.2	1.2	1.2
CF interest cover (x)	7.6	(10.6)	(1.8)	8.8	8.8

Valuation	2006A	2007A	2008E	2009E	2010E
Recurring P/E (x) *	8.5	7.4	7.3	6.5	5.5
Recurring P/E @ target price (x) *	10.3	8.9	8.8	7.8	6.6
Reported P/E (x)	8.5	7.4	7.3	6.5	5.5
Dividend yield (%)	3.9	5.7	6.7	7.5	9.3
P/CF (x)	6.1	5.3	5.2	4.5	3.7
P/FCF (x)	10.0	neg	neg	24.7	13.9
Price/book (x)	1.6	1.4	1.4	1.2	1.1
Price/tangible book (x)	1.6	1.4	1.4	1.2	1.1
EV/EBITDA (x) **	3.7	3.8	4.5	4.3	3.7
EV/EBITDA @ target price (x) **	4.6	4.7	5.3	5.0	4.3
EV/invested capital (x)	1.9	1.4	1.3	1.2	1.1

** Pre exceptional, pre-goodwill and fully diluted*
*** EBITDA includes associate income and recurring non-operating income*

Sources: Wistron Corp; BNP Paribas estimates

Compal Electronics

Profit and Loss (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Revenue	303,071	427,461	417,221	464,063	548,879
Cost of sales ex depreciation	(288,276)	(406,280)	(395,607)	(440,704)	(521,650)
Gross profit ex depreciation	14,795	21,180	21,613	23,359	27,229
Other operating income	-	-	-	-	-
Operating costs	(5,199)	(6,270)	(9,757)	(11,184)	(12,914)
Operating EBITDA	**9,596**	**14,910**	**11,856**	**12,174**	**14,315**
Depreciation	(360)	(551)	(522)	(557)	(1,014)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	**9,236**	**14,360**	**11,333**	**11,618**	**13,302**
Net financing costs	426	825	833	796	858
Associates	1,224	1,860	2,703	2,755	3,852
Recurring non operating income	(494)	(500)	1,036	800	400
Non recurring items	-	-	-	-	-
Profit before tax	**10,391**	**16,545**	**15,905**	**15,969**	**18,412**
Tax	(1,640)	(2,862)	(2,724)	(2,842)	(3,277)
Profit after tax	**8,751**	**13,683**	**13,181**	**13,126**	**15,134**
Minority interests	**-**	**-**	**-**	**-**	**-**
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	**8,751**	**13,683**	**13,181**	**13,126**	**15,134**
Non recurring items & goodwill (net)	**-**	**-**	**-**	**-**	**-**
Recurring net profit	**8,751**	**13,683**	**13,181**	**13,126**	**15,134**
Per share (TWD)					
Recurring EPS *	2.27	3.52	3.34	3.33	3.84
Reported EPS	2.27	3.52	3.34	3.33	3.84
DPS	1.39	1.67	2.35	2.27	2.26
Growth					
Revenue (%)	37.2	41.0	(2.4)	11.2	18.3
Operating EBITDA (%)	10.6	55.4	(20.5)	2.7	17.6
Operating EBIT (%)	14.7	55.5	(21.1)	2.5	14.5
Recurring EPS (%)	0.4	54.9	(5.0)	(0.4)	15.3
Reported EPS (%)	0.4	54.9	(5.0)	(0.4)	15.3
Operating performance					
Gross margin inc depreciation (%)	4.8	4.8	5.1	4.9	4.8
Operating EBITDA margin (%)	3.2	3.5	2.8	2.6	2.6
Operating EBIT margin (%)	3.0	3.4	2.7	2.5	2.4
Net margin (%)	2.9	3.2	3.2	2.8	2.8
Effective tax rate (%)	15.8	17.3	17.1	17.8	17.8
Dividend payout on recurring profit (%)	61.3	47.4	70.4	68.1	58.8
Interest cover (x)	na	na	na	na	na
Inventory days	12.9	10.4	11.2	10.5	10.2
Debtor days	60.9	54.1	56.1	52.6	51.1
Creditor days	62.3	57.2	57.5	53.9	52.4
Operating ROIC (%)	69.1	127.8	83.7	77.4	75.3
Operating ROIC - WACC (%)	60.9	119.6	75.5	69.2	67.1
ROIC (%)	15.6	23.9	22.0	21.5	24.0
ROIC - WACC (%)	7.4	15.7	13.8	13.3	15.8
ROE (%)	12.9	18.3	16.4	15.6	16.9
ROA (%)	6.1	8.3	7.8	7.4	7.9

** Pre exceptional, pre-goodwill and fully diluted*

Sources: Compal Electronics; BNP Paribas estimates

Compal Electronics

Cash Flow (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Recurring net profit	8,751	13,683	13,181	13,126	15,134
Depreciation	360	551	522	557	1,014
Associates & minorities	(1,224)	(1,860)	(2,703)	(2,755)	(3,852)
Other non-cash items	-	-	-	-	-
Recurring cash flow	**7,888**	**12,374**	**11,000**	**10,928**	**12,296**
Change in working capital	7,621	(4,456)	(30)	(1,124)	(2,023)
Capex - maintenance	51	(92)	(45)	(600)	(240)
Capex - new investment	119	(215)	(105)	(1,400)	(560)
Free cash flow to equity	**15,678**	**7,611**	**10,820**	**7,804**	**9,473**
Net acquisitions & disposals	(2,728)	118	2,703	2,755	3,852
Dividends paid	(5,365)	(6,479)	(9,278)	(8,938)	(8,901)
Non recurring cash flows	233	32	-	-	-
Net cash flow	**7,818**	**1,282**	**4,245**	**1,621**	**4,425**
Equity finance	(2,312)	(6,667)	-	-	-
Debt finance	2,007	2,282	2,756	(1,875)	(1,594)
Movement in cash	**7,513**	**(3,103)**	**7,001**	**(254)**	**2,831**
Per share (TWD)					
Recurring cash flow per share	2.05	3.18	2.79	2.77	3.12
FCF to equity per share	4.07	1.96	2.75	1.98	2.40

Balance Sheet (TWD m) Year Ending December	2006A	2007A	2008E	2009E	2010E
Working capital assets	73,677	78,423	76,650	85,442	101,298
Working capital liabilities	(68,895)	(69,185)	(67,382)	(75,049)	(88,883)
Net working capital	**4,783**	**9,238**	**9,268**	**10,393**	**12,415**
Tangible fixed assets	2,402	2,158	1,785	3,229	3,015
Operating invested capital	**7,184**	**11,396**	**11,054**	**13,621**	**15,430**
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	43,708	45,002	45,002	45,002	45,002
Other assets	696	664	664	664	664
Invested capital	**51,587**	**57,061**	**56,719**	**59,287**	**61,096**
Cash & equivalents	(34,098)	(31,443)	(38,444)	(38,190)	(41,021)
Short term debt	14,236	-	3,750	3,188	2,709
Long term debt *	-	9,744	8,750	7,438	6,322
Net debt	**(19,861)**	**(21,699)**	**(25,944)**	**(27,565)**	**(31,989)**
Deferred tax	-	-	-	-	-
Other liabilities	216	511	511	511	511
Total equity	71,233	78,249	82,152	86,340	92,574
Minority interests	-	-	-	-	-
Invested capital	**51,587**	**57,061**	**56,719**	**59,287**	**61,096**

** Includes convertibles and preferred stock which is being treated as debt*

	2006A	2007A	2008E	2009E	2010E
Per share (TWD)					
Book value per share	18.50	20.14	20.85	21.91	23.49
Tangible book value per share	18.50	20.14	20.85	21.91	23.49
Financial strength					
Net debt/equity (%)	(27.9)	(27.7)	(31.6)	(31.9)	(34.6)
Net debt/total assets (%)	(12.8)	(13.8)	(16.0)	(16.0)	(16.7)
Current ratio (x)	1.3	1.6	1.6	1.6	1.6
CF interest cover (x)	na	na	na	na	na

Consistent net cash position

Valuation	2006A	2007A	2008E	2009E	2010E
Recurring P/E (x) *	9.6	6.2	6.5	6.5	5.7
Recurring P/E @ target price (x) *	11.9	7.7	8.1	8.1	7.0
Reported P/E (x)	9.6	6.2	6.5	6.5	5.7
Dividend yield (%)	6.4	7.6	10.8	10.4	10.4
P/CF (x)	10.6	6.8	7.8	7.9	7.0
P/FCF (x)	5.4	11.1	7.9	11.0	9.1
Price/book (x)	1.2	1.1	1.0	1.0	0.9
Price/tangible book (x)	1.2	1.1	1.0	1.0	0.9
EV/EBITDA (x) **	6.6	3.9	3.9	3.8	3.0
EV/EBITDA @ target price (x) **	8.5	5.1	5.2	5.1	4.1
EV/invested capital (x)	1.2	1.1	1.1	1.0	0.9

** Pre exceptional, pre-goodwill and fully diluted*

*** EBITDA includes associate income and recurring non-operating income*

Attractive yield of 10.4%

Sources: Compal Electronics; BNP Paribas estimates

BNP Paribas Technology Research Team

Johnny Chen
Head of Technology Research
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7059
johnny.c.chen@asia.bnpparibas.com

Eric Chen
Foundry, IC Design, DRAM
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7057
eric.chen@asia.bnpparibas.com

Szeho Ng, CFA
Packaging & Testing, Foundry, Displays
BNP Paribas Securities (Asia) Ltd
(852) 2825 1167
szeho.ng@asia.bnpparibas.com

Peter Yu, CFA
Semiconductors, Displays, Handsets
BNP Paribas Securities Korea Co Ltd
(82 2) 2125 0535
peter.yu@asia.bnpparibas.com

Skye Chen
Handsets/LED/DRAM
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7052
skye.chen@asia.bnpparibas.com

Frederick Wong
Handsets
BNP Paribas Securities (Asia) Ltd
(852) 2825 1801
frederick.wong@asia.bnpparibas.com

Nick Ahn
Downstream Technology
BNP Paribas Securities Korea Co Ltd
(82 2) 2125 0537
nick.ahn@asia.bnpparibas.com

Patty Liu
PC/Downstream
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7049
patty.liu@asia.bnpparibas.com

Damien Chua, CFA
Electronic Equipment
BNP Paribas Securities (Singapore) Pte Ltd
Co. Reg. No. 199801966C
(65) 6210 1958
damien.chua@asia.bnpparibas.com

Abhiram Eleswarapu
Software & Services
BNP Paribas Securities India Pvt Ltd
(91 22) 6650 1684
abhiram.eleswarapu@asia.bnpparibas.com

Christie Lai
Research Associate
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7058
christie.lai@asia.bnpparibas.com

Chris Lin
Research Associate
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7056
chris.lin@asia.bnpparibas.com

Rick Chen
Research Associate
BNP Paribas Securities (Taiwan) Co Ltd
(886 2) 2175 7065
rick.chen@asia.bnpparibas.com

Sara Lim
Research Associate
BNP Paribas Securities Korea Co Ltd
(82 2) 2125 0541
sara.lim@asia.bnpparibas.com

DISCLAIMERS & DISCLOSURES

Recommendation structure

All share prices are as at market close on 13 October 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.