

TAIWAN

## Wintek

23 October 2008

**2384 TT** **Outperform**

Stock price as of 22 Oct 08	NT\$	10.05
12-month target	NT\$	12.60
Upside/downside	%	+25.4
Valuation	NT\$	12.60
- Price To Book		

GICS sector	technology hardware & equipment	
Market cap	NT\$m	11,541
30-day avg turnover	NT\$m	194.1
Market cap	US\$m	354
Foreign ownership	%	10.1
Number shares on issue	m	1,148

### Investment fundamentals

Year end 31 Dec		2007A	2008E	2009E	2010E
Total revenue	m	31,592	33,966	41,520	47,490
Reported profit	m	592	-1,268	1,001	1,196
Profit bonus exp	m	434	-1,268	1,001	1,196
Bon exp/rep prof	%	26.7	0.0	0.0	0.0
EPS rep	NT\$	0.55	-1.10	0.87	1.04
EPS rep growth	%	-75.7	0.0	0.0	19.4
EPS bonus exp	NT\$	0.40	-1.10	0.87	1.04
EPS bonus growth %		-80.7	0.0	0.0	19.4
PE rep	x	18.2	nmf	11.5	9.7
PE bonus exp	x	24.9	0.0	11.5	9.7
Total DPS	NT\$	0.39	0.00	0.10	0.25
Total div yield	%	3.8	0.0	1.0	2.5
ROA	%	1.9	-1.5	2.9	3.1
ROE	%	2.2	-4.6	3.8	4.4
EV/EBITDA	x	7.3	6.9	4.3	4.2
Net debt/equity	%	50.7	83.6	85.2	83.4
Price/book	x	0.4	0.4	0.4	0.4

### 2384 TT rel Taiex performance, & rec history



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

### Analyst

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## 3Q08 results preview

### Event

- **3Q08 could see margins improving, allowing losses to narrow.** We believe the operating margin improved to -2.8% from -5.2% in 2Q08 thanks to the ramp-up of the touch panel business. This was better than our previous estimate of -9.2%. We believe Wintek is the only panel manufacturer worldwide to see 3Q08 margins improve sequentially. Sales reached NT\$9.2bn (+24% QoQ, +15% YoY). We estimate a loss per share (LPS) of NT\$0.36 (a net loss of NT\$411m), better than an LPS of NT\$0.39 in 2Q08.

### Impact

- **For 4Q08, we conservatively forecast the operating margin to improve slightly to -2.5% with sales of NT\$9.0bn (-2% QoQ, -7% YoY).** We look for LPS to improve further to NT\$0.30.
- **Credit concerns have created share-price weakness** recently despite improving fundamentals. Net debt/equity was 74% as at end-2Q08. Currently, the company has around NT\$5bn of cash on hand, but short-term debt amounts to about NT\$10bn.
- **Wintek will do its first-ever share buyback.** A maximum total of 20m shares, or 1.8% of shares outstanding, will be bought at any price below NT\$20 from 21 October to 19 December. While the buyback indicates that management believes the stock is significantly undervalued, we think the buyback is a negative move given the weakness of the balance sheet.

### Earnings revision

- We narrow our 2008E LPS to NT\$1.10 from NT\$1.88 to reflect improving margins. For 2009/10, we conservatively lower our EPS forecasts by 16%/10% given low visibility for handset demand. We forecast operating profitability in 2H09. Wintek may break even earlier if it successfully fulfils TFT-LCD panel orders in 1Q09 for Nokia (NOK1V HEL, €12.6, Underperform, TP: €10.5) handsets.

### Price catalyst

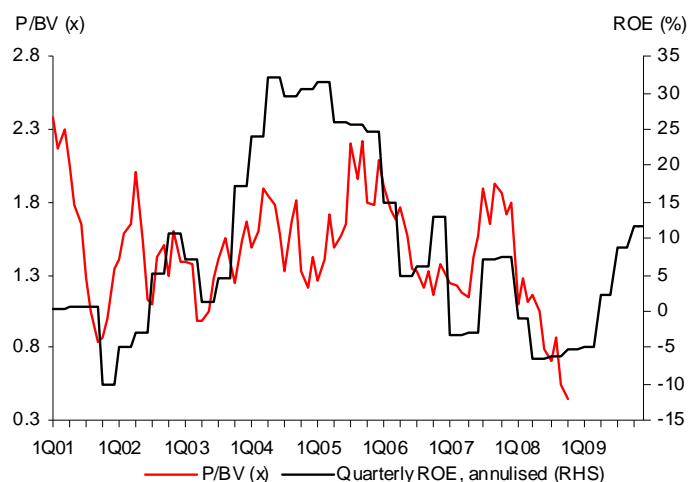
- 12-month price target: NT\$12.60 based on a Price to Book methodology.
- Catalyst: Touch panel demand and the TFT-LCD cycle are key stock drivers

### Action and recommendation

- We maintain an Outperform rating on Wintek. We lower our target price to NT\$12.6 based on a 2009E P/BV of 0.5x. Our previous target price was NT\$26.2 based on 1.2x our preceding 2008E BV/share estimate. We have lowered our target multiple to reflect credit risks from high debt gearing that could weigh on the stock in the near term.
- Longer term, we believe the stock can trade up to its book value when credit concerns subside and as the touch panel business ramps further leading to profitability and a re-rating as one of the premier touch panel makers globally. While tech visibility is low, Wintek should see growth powered by touch panels, where the popular iPhone accounts for most of Wintek's touch panel shipments.

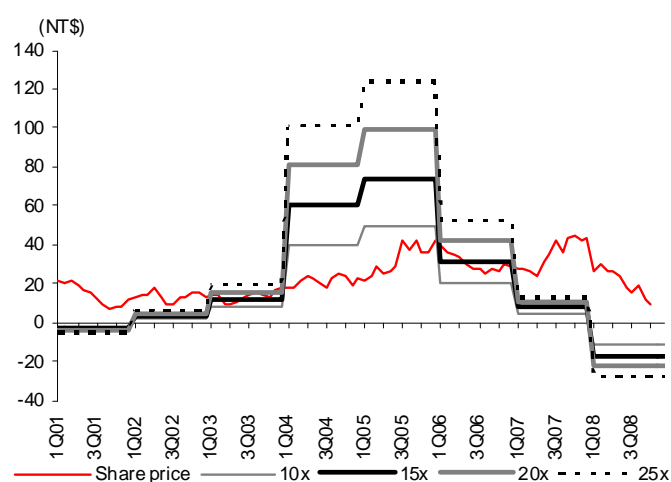
Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website [www.macquarie.com.au/research/disclosures](http://www.macquarie.com.au/research/disclosures).

Fig 1 Wintek – P/BV vs ROE, reported



Source: Company data, Macquarie Research, October 2008

Fig 2 Wintek – PER band, reported



Source: Company data, Macquarie Research, October 2008

Fig 3 Income statement, reported

Year end 31 Dec (NT\$m)	2003A	2004A	2005A	2006A	2007A	2008E	2009E	2010E
Net sales	14,825	32,861	55,119	33,694	31,592	33,966	41,520	47,490
Gross profit	2,375	7,261	9,536	5,583	3,633	1,907	4,813	5,336
Operating expenses	1,352	2,658	3,299	2,845	2,636	2,779	3,069	3,424
Operating income	1,022	4,603	6,237	2,738	998	-872	1,743	1,913
Net non-operating income	-303	-254	-194	-395	-307	-310	-460	-460
Pre-tax income	720	4,349	6,043	2,342	691	-1,182	1,283	1,453
Income tax (credit)	16	323	395	261	68	73	282	257
Extraordinary items	0	0	0	256	0	0	0	0
Minority interest	0	11	1	12	32	13	0	0
Net income	704	4,015	5,647	2,325	592	-1,268	1,001	1,196
Shares, wgt avg, adj (m)	755	840	981	1,023	1,073	1,148	1,148	1,148
EPS, adj (NT\$)	0.93	4.78	5.75	2.27	0.55	-1.10	0.87	1.04
% ch YoY								
Sales	81	122	68	-39	-6	8	22	14
Gross profit	57	206	31	-41	-35	-48	152	11
Operating income	86	350	36	-56	-64	nmf	nmf	10
Net income	248	471	41	-59	-75	nmf	nmf	19
EBITDA	66	221	37	-39	-15	4	63	2
EPS	189	413	20	-60	-76	nmf	nmf	19
Margins (%)								
Gross	16.0	22.1	17.3	16.6	11.5	5.6	11.6	11.2
Operating	6.9	14.0	11.3	8.1	3.2	-2.6	4.2	4.0
Net	4.7	12.2	10.2	6.9	1.9	-3.7	2.4	2.5
EBITDA	12.0	17.4	14.2	14.2	12.9	12.6	16.7	15.0

As per ROC GAAP reporting, financials from and including 2008 include bonus expenses, while financials before 2008 exclude bonus expenses.

Source: Macquarie Research, TEJ, Company data, October 2008

**Fig 4 Income statement, reported quarterly**

Year end 31 Dec (NT\$m)	1Q08A	2Q08A	3Q08E	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E
Net sales	8,253	7,476	9,226	9,010	8,480	9,300	11,180	12,560
Gross profit	751	254	421	481	485	686	1,514	2,128
Operating expenses	750	644	676	710	639	734	808	889
Operating income	1	-390	-255	-229	-154	-48	706	1,239
Net non-operating income	-12	-27	-156	-115	-115	-115	-115	-115
Pre-tax income	-11	-417	-411	-344	-269	-163	591	1,124
Income tax (credit)	48	25	0	0	0	25	89	169
Extraordinary items	0	0	0	0	0	0	0	0
Minority interest	6	6	0	0	0	0	0	0
Net income	-65	-448	-411	-344	-269	-188	502	956
Shares, wgt avg, adj (m)	1,148	1,148	1,148	1,148	1,148	1,148	1,148	1,148
EPS, adj (NT\$)	-0.06	-0.39	-0.36	-0.30	-0.23	-0.16	0.44	0.83
% ch QoQ								
Sales		-9	23	-2	-6	10	20	12
Gross profit		-66	66	14	1	41	121	41
Operating income		nmf	nmf	nmf	nmf	nmf	nmf	76
Net income		nmf	nmf	nmf	nmf	nmf	nmf	90
EBITDA		-30	18	2	7	9	60	27
EPS		nmf	nmf	nmf	nmf	nmf	nmf	90
Margins (%)								
Gross	9.1	3.4	4.6	5.3	5.7	7.4	13.5	16.9
Operating	0.0	-5.2	-2.8	-2.5	-1.8	-0.5	6.3	9.9
Net	-0.8	-6.0	-4.5	-3.8	-3.2	-2.0	4.5	7.6
EBITDA	15.4	11.8	11.3	11.9	13.5	13.5	17.9	20.2

As per ROC GAAP reporting, financials from and including 2008 include bonus expenses, while financials before 2008 exclude bonus expenses.

Source: Macquarie Research, TEJ, Company data, October 2008

Fig 5 Income statement, bonus adjusted

Year end 31 Dec (NT\$m)	2003A	2004A	2005A	2006A	2007A	2008E	2009E	2010E
Net sales	14,825	32,861	55,119	33,694	31,592	33,966	41,520	47,490
Gross profit	2,375	7,261	9,536	5,583	3,633	1,907	4,813	5,336
Operating expenses	1,481	3,191	4,158	3,030	2,793	2,779	3,069	3,424
Non-bonus expenses	1,352	2,658	3,299	2,845	2,636	2,779	2,892	3,213
Bonus at market value	129	533	860	184	158	0	177	211
Operating income	894	4,070	5,378	2,554	840	-872	1,743	1,913
Net non-operating income	-303	-254	-194	-395	-307	-310	-460	-460
Pre-tax income	591	3,816	5,184	2,158	533	-1,182	1,283	1,453
Income tax (credit)	16	323	395	261	68	73	282	257
Extraordinary items	0	0	0	256	0	0	0	0
Minority interest	0	11	1	12	32	13	0	0
Net income	575	3,482	4,787	2,141	434	-1,268	1,001	1,196
Shares, wgt avg, adj (m)	755	840	981	1,023	1,073	1,148	1,148	1,148
EPS (NT\$)	0.76	4.15	4.88	2.09	0.40	-1.10	0.87	1.04
Net income before bonus	704	4,015	5,647	2,325	592	-1,268	1,178	1,407
Bonus at market value as % of								
Net income before bonus	18	13	15	8	27	0	15	15
Net income	22	15	18	9	36	0	18	18
Pre-tax income before bonus	18	12	14	8	23	0	12	13
Pre-tax income	22	14	17	9	30	0	14	15
Operating income before bonus	13	12	14	7	16	0	9	10
Operating income	14	13	16	7	19	0	10	11
Gross profit	5	7	9	3	4	0	4	4
Sales	1	2	2	1	0	0	0	0
% ch YoY								
Sales	81	122	68	-39	-6	8	22	14
Gross profit	57	206	31	-41	-35	-48	152	11
Operating expenses	54	115	30	-27	-8	-1	10	12
Operating income	63	355	32	-53	-67	nmf	nmf	10
Net income	185	506	37	-55	-80	nmf	nmf	19
EBITDA	54	214	34	-34	-15	9	63	2
EPS	136	445	18	-57	-81	nmf	nmf	19
Margins (%)								
Gross	16.0	22.1	17.3	16.6	11.5	5.6	11.6	11.2
Operating	6.0	12.4	9.8	7.6	2.7	-2.6	4.2	4.0
Net	3.9	10.6	8.7	6.4	1.4	-3.7	2.4	2.5
EBITDA	11.2	15.8	12.6	13.7	12.4	12.6	16.7	15.0
Returns (%)								
ROE	6.3	26.4	24.7	9.6	1.8	-5.0	4.1	4.7
ROIC	5.5	18.6	20.8	9.3	2.8	-1.1	3.9	4.1
ROCE	5.3	18.3	19.0	8.0	2.7	-0.8	4.3	4.6
ROA	4.1	14.0	14.5	6.4	2.2	-0.7	3.6	3.8

For income statement data, financials from and including 2008 are reported, while financials before 2008 are pro forma. For return ratios, all data are pro forma.

Source: Macquarie Research, TEJ, Company data, October 2008

**Wintek (2384 TT, Outperform, Target price: NT\$12.60)**

Quarterly Results					Profit & Loss						
		1Q/08A	2Q/08A	3Q/08E	4Q/08E		2007A	2008E	2009E	2010E	
Revenue	m	8,253	7,476	9,226	9,010	Revenue	m	31,592	33,966	41,520	47,490
Gross Profit	m	751	254	421	481	Gross Profit	m	3,633	1,907	4,813	5,336
Operating Expenses	m	-750	-644	-676	-710	Operating Expenses	m	-2,636	-2,779	-3,069	-3,424
Operating Income	m	1	-390	-255	-229	Operating Income	m	998	-872	1,743	1,913
Net Non-operating income	m	-12	-27	-156	-115	Net Non-operating income	m	-307	-310	-460	-460
Pre-Tax Income	m	-11	-417	-411	-344	Pre-Tax Income	m	691	-1,182	1,283	1,453
Tax Expense	m	-48	-25	0	0	Tax Expense	m	-68	-73	-282	-257
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Minority Interests	m	-6	-6	0	0	Minority Interests	m	-32	-13	0	0
<b>Reported Earnings</b>	<b>m</b>	<b>-65</b>	<b>-448</b>	<b>-411</b>	<b>-344</b>	<b>Reported Earnings</b>	<b>m</b>	<b>592</b>	<b>-1,268</b>	<b>1,001</b>	<b>1,196</b>
Reported Earnings (bonus exp)	m	-65	-448	-411	-344	Reported Earnings (bonus exp)	m	434	-1,268	1,001	1,196
Bonus exp / Reported Earnings	%	0.0	0.0	0.0	0.0	Bonus exp / Reported Earnings	%	26.7	0.0	0.0	0.0
Adjusted Earnings	m	-65	-448	-411	-344	Adjusted Earnings	m	592	-1,268	1,001	1,196
EBITDA	m	1,268	884	1,045	1,071	EBITDA	m	4,087	4,268	6,943	7,113
EPS (rep)	NT\$	-0.06	-0.39	-0.36	-0.30	EPS (rep)	NT\$	0.55	-1.10	0.87	1.04
EPS pcg growth (rep)	%	68.0	-119.3	nmf	nmf	EPS growth (rep)	%	-75.7	nmf	nmf	19.4
EPS (rep bonus exp)	NT\$	-0.06	-0.39	-0.36	-0.30	EPS (rep bonus exp)	NT\$	0.40	-1.10	0.87	1.04
EPS pcg growth (rep bonus exp)	%	56.4	-199.1	nmf	nmf	EPS growth (rep bonus exp)	%	-80.7	nmf	nmf	19.4
Revenue pcg growth	%	19.2	8.0	4.0	1.6	PE (rep)	x	18.2	nmf	11.5	9.7
Operating Income pcg growth	%	nmf	-175.9	nmf	nmf	PE (rep bonus adj)	x	24.9	nmf	11.5	9.7
Reported Earnings pcg growth	%	65.0	-140.3	nmf	nmf	PE (adj)	x	19.2	nmf	11.5	9.7
Gross Profit Margin	%	9.1	3.4	4.6	5.3	Total DPS	NT\$	0.39	0.00	0.10	0.25
Operating Income Margin	%	0.0	-5.2	-2.8	-2.5	Total Div Yield	%	3.8	0.0	1.0	2.5
Reported Earnings Margin	%	-0.8	-6.0	-4.5	-3.8	Weighted Average Shares	m	1,073	1,148	1,148	1,148
EBITDA Margin	%	15.4	11.8	11.3	11.9	Period End Shares	m	1,148	1,148	1,148	1,148
<b>Profit and Loss Ratios</b>		<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>Cashflow Analysis</b>		<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Revenue Growth	%	-6.2	7.5	22.2	14.4	Reported Earnings	m	592	-1,268	1,001	1,196
Gross Profit Growth	%	-34.9	-47.5	152.4	10.9	Depreciation & Amortisation	m	3,089	5,140	5,200	5,200
Operating Income Growth	%	-63.6	nmf	nmf	9.7	Chgs in Working Cap	m	757	-1,979	-3,424	-2,323
Reported Earnings Growth	%	-74.6	nmf	nmf	19.4	Other	m	116	-225	-40	-40
EBITDA Growth	%	-14.6	4.4	62.7	2.4	Operating Cashflow	m	4,553	1,668	2,738	4,033
Gross Profit Margin	%	11.5	5.6	11.6	11.2	Acquisitions	m	0	0	0	0
Operating Income Margin	%	3.2	-2.6	4.2	4.0	Capex	m	-11,726	-8,056	-4,000	-4,000
Reported Earnings Margin	%	1.9	-3.7	2.4	2.5	Asset Sales	m	246	-58	0	0
EBITDA Margin	%	12.9	12.6	16.7	15.0	Other	m	-1,061	18	0	0
Payout Ratio	%	73.8	nmf	11.5	24.0	Investing Cashflow	m	-12,541	-8,096	-4,000	-4,000
EV/EBITDA	x	7.3	6.9	4.3	4.2	Dividend (Ordinary)	m	-1,052	-443	0	-115
EV/EBIT	x	29.9	-35.7	16.7	15.2	Equity Raised	m	3,831	0	0	0
Debt Movements	m	6,224	3,251	0	0						
Other	m	229	102	0	-177						
Financing Cashflow	m	9,233	2,910	0	-292						
Net Chg in Cash/Debt	m	1,092	-3,900	-1,262	-258						
Free Cashflow	m	-7,172	-6,387	-1,262	33						
FCF per Share	NT\$	-6.68	-5.56	-1.10	0.03						
P/FCF	x	-1.5	-1.8	-9.1	344.9						
<b>Balance Sheet Ratios</b>		<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>Balance Sheet</b>		<b>2007A</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
ROE	%	2.2	-4.6	3.8	4.4	Cash	m	6,424	2,524	1,262	1,004
ROA	%	1.9	-1.5	2.9	3.1	Receivables	m	6,007	6,103	8,470	9,696
ROIC	%	2.6	-2.1	2.9	3.2	Inventories	m	7,362	9,437	11,551	13,743
Net Debt/Equity	%	50.7	83.6	85.2	83.4	Investments	m	9	106	106	106
Interest Cover	x	3.5	-1.4	2.6	2.8	Fixed Assets	m	33,634	36,507	35,307	34,107
Price/Book	x	0.4	0.4	0.4	0.4	Intangibles	m	40	38	38	38
Book Value per Share	NT\$	24.9	22.6	23.4	24.2	Other Assets	m	4,525	4,048	4,088	4,128
Total Assets	m	58,002	58,762	60,821	62,821						
Payables	m	8,143	8,275	9,332	10,428						
Short Term Debt	m	10,008	9,865	9,865	9,865						
Long Term Debt	m	10,936	14,329	14,329	14,329						
Provisions	m	0	0	0	0						
Other Liabilities	m	304	384	384	384						
Total Liabilities	m	29,390	32,853	33,910	35,006						
Total S/H Equity	m	28,612	25,909	26,910	27,815						
Total Liab & S/H Funds	m	58,002	58,762	60,821	62,821						

All figures in NT\$ unless noted.

Source: Macquarie Research, TEJ, Company data, October 2008

## Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p><b>Macquarie - Australia/New Zealand</b>            Outperform – return &gt;5% in excess of benchmark return (&gt;2.5% in excess for listed property trusts)            Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)            Underperform – return &gt;5% below benchmark return (&gt;2.5% below for listed property trusts)</p> <p><b>Macquarie – Asia/Europe</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie First South - South Africa</b>            Outperform – expected return &gt;+10%            Neutral – expected return from -10% to +10%            Underperform – expected return &lt;-10%</p> <p><b>Macquarie - Canada</b>            Outperform – return &gt;5% in excess of benchmark return            Neutral within 5% of benchmark return            Underperform – return &gt;5% below benchmark return</p> <p><b>Macquarie - USA</b>            Outperform (Buy) – return &gt;5% in excess of benchmark return            Neutral (Hold) – return within 5% of benchmark return            Underperform (Sell) – return &gt;5% below benchmark return</p> <p><b>Recommendations – 12 months</b></p> <p><b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p><b>Very high–highest risk</b> – 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><b>High</b> – 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><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – 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 &amp; hedging, IFRS impairments &amp; IFRS interest expense            Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / epowa*  <b>ROA</b> = adjusted ebit / average total assets  <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets  <b>ROE</b> = adjusted net profit / average shareholders funds  <b>Gross cashflow</b> = 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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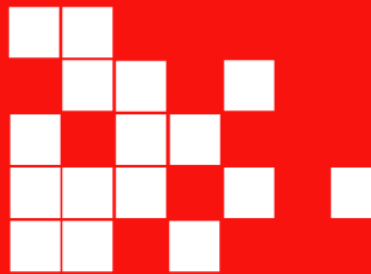
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