

COMPANY UPDATE

Taiwan Cement (1101.TW)

Neutral

Improving op income on higher ASP; reduce TP on lower EV/t, NAV**What's changed**

TCC announced 3Q08 results largely in line with our expectations, with sales down 2% qoq to NT\$6.2bn, GP up 50% qoq to NT\$547mn, OP increased 131% qoq to NT\$251mn, and NI declined 51% qoq to NT\$1.1bn. 1Q08-3Q08 NI represented 70% of our 08E NI estimate. We attribute the higher GP and OP to higher ASP in 3Q08, while sales volumes declined during the period. Meanwhile, we believe the significant qoq drop in NI was mainly due to the lack of a sizeable disposal gain, as was incurred in 2Q08.

Implications

We believe the 3.06ppt improvement in GM in 3Q08 was mainly due to the 8%-10% qoq increase in blended ASP in 3Q08, partly offset by declining volumes. We expect 4Q08 GM to stay at the current level given volume and ASP stabilization. Our recent channel checks suggest that the new coal contract price for 09E could be around US\$150-160/t (vs. US\$130/t in 08E); however, we believe the loss-making export market will turn profitable in 09E after a 20%-25% ASP increase in 09E as guided by the company, leading to yoy GM expansion. We retain Neutral given we do not expect demand to pick up in the next 2 quarters to trigger a valuation re-rating.

Valuation

We lower our EV/t assumption we use to value the core business to US\$45/t from US\$60/t to reflect the trough cycle valuation and cut our 09E NAV per share to NT\$24.7 from NT\$31.6. We also widen our discount to NAV to 25% from 20% to reflect rising investor concern over the volatility of its non-listed equity investment. As a result, we reduce our 12-m SOTP-based TP to NT\$18.5 from NT\$25.0. While the historical trough P/B is 0.3x, we do not think TCC will trade at such a discount given the cement market consolidation over the past few years and stable earnings contribution from its key subsidiary, Hoping Power (Private).

Key risks

Stronger-than-expected demand in both Taiwan and China markets.

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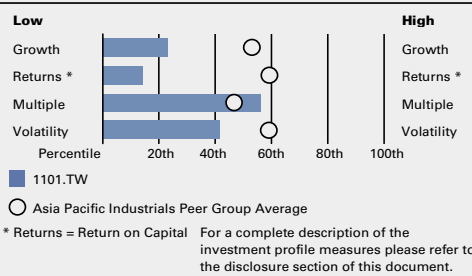
Neutral

Coverage View: Neutral

Taiwan:
Construction

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Investment Profile: Taiwan Cement

Key data	Current
Price (NT\$)	14.90
12 month price target (NT\$)	18.50
Market cap (NT\$ mn / US\$ mn)	49,053.4 / 1,466.1
Foreign ownership (%)	45.1

	12/07	12/08E	12/09E	12/10E
EPS (NT\$)	2.49	2.01	2.08	2.43
EPS growth (%)	15.9	(19.3)	3.7	16.9
EPS (diluted) (NT\$)	2.49	2.01	2.08	2.43
EPS (basic pre-ex) (NT\$)	2.52	2.01	2.08	2.43
P/E (X)	6.0	7.4	7.2	6.1
P/B (X)	0.6	0.6	0.6	0.6
EV/EBITDA (X)	30.0	22.9	19.6	22.0
Dividend yield (%)	12.6	10.5	10.9	12.7
ROE (%)	10.9	7.9	8.1	9.2

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	(62.3)	(70.5)	(73.1)
Rel. to Taiwan SE Weighted Index	(40.0)	(40.5)	(40.2)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/29/2008 close.

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Taiwan Cement: Summary financials

Profit model (NT\$ mn)	12/07	12/08E	12/09E	12/10E	Balance sheet (NT\$ mn)	12/07	12/08E	12/09E	12/10E
Total revenue	24,564.7	24,504.4	27,240.2	28,523.2	Cash & equivalents	6,698.4	6,672.2	3,355.8	251.2
Cost of goods sold	(19,265.7)	(20,596.7)	(22,789.5)	(24,204.2)	Accounts receivable	4,659.6	4,648.2	5,167.1	5,410.5
SG&A	(1,027.6)	(1,323.2)	(1,253.0)	(1,312.1)	Inventory	1,971.8	1,967.0	2,186.6	2,289.6
R&D	0.0	0.0	0.0	0.0	Other current assets	266.5	265.9	295.6	309.5
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	13,596.4	13,553.3	11,005.1	8,260.8
EBITDA	4,271.5	2,584.5	3,197.7	3,006.8	Net PP&E	38,570.8	36,795.1	35,007.8	33,853.2
Depreciation & amortization	(2,026.5)	(2,059.5)	(2,063.8)	(1,424.1)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	2,244.9	525.0	1,133.9	1,582.7	Total investments	54,109.1	56,814.6	62,496.0	68,745.6
Interest income	57.4	66.9	50.1	18.0	Other long-term assets	3,327.3	3,660.0	4,026.0	4,428.6
Interest expense	(557.2)	(537.2)	(553.9)	(565.0)	Total assets	109,603.6	110,823.0	112,535.0	115,288.2
Income/(loss) from uncons. subs.	5,758.6	4,629.9	4,817.6	5,673.3	Accounts payable	1,919.6	2,042.6	2,240.6	2,310.5
Others	1,135.4	2,500.0	2,000.0	2,000.0	Short-term debt	395.1	414.0	420.4	430.7
Pretax profits	8,639.1	7,184.6	7,447.7	8,709.1	Other current liabilities	6,178.9	2,685.9	2,517.3	2,365.6
Income tax	(384.0)	(574.8)	(595.8)	(696.7)	Total current liabilities	8,493.7	5,142.4	5,178.3	5,106.8
Minorities	0.0	0.0	0.0	0.0	Long-term debt	12,222.9	16,317.7	16,585.2	17,015.5
Net income pre-preferred dividends	8,255.1	6,609.8	6,851.9	8,012.4	Other long-term liabilities	6,060.1	5,757.1	5,469.2	5,195.8
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	18,283.0	22,074.8	22,054.4	22,211.2
Net income (pre-exceptionals)	8,255.1	6,609.8	6,851.9	8,012.4	Total liabilities	26,776.7	27,217.2	27,232.8	27,318.0
Post-tax exceptionals	(92.1)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	8,163.0	6,609.8	6,851.9	8,012.4	Total common equity	82,826.9	83,605.8	85,302.2	87,970.3
EPS (basic, pre-except) (NT\$)	2.52	2.01	2.08	2.43	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-except) (NT\$)	2.49	2.01	2.08	2.43	Total liabilities & equity	109,603.6	110,823.0	112,535.0	115,288.2
EPS (diluted, post-except) (NT\$)	2.49	2.01	2.08	2.43	BVPS (NT\$)	25.24	25.40	25.91	26.72
DPS (NT\$)	1.88	1.57	1.62	1.90					
Dividend payout ratio (%)	75.7	78.0	78.0	78.0					
Free cash flow yield (%)	1.1	13.8	8.5	7.2					
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Ratios	12/07	12/08E	12/09E	12/10E
Sales growth	(5.8)	(0.2)	11.2	4.7	ROE (%)	10.9	7.9	8.1	9.2
EBITDA growth	(19.7)	(39.5)	23.7	(6.0)	ROA (%)	7.9	6.0	6.1	7.0
EBIT growth	(30.8)	(76.6)	116.0	39.6	ROACE (%)	10.6	7.8	7.6	8.4
Net income growth	22.8	(19.0)	3.7	16.9	Inventory days	33.6	34.9	33.3	33.8
EPS growth	15.9	(19.3)	3.7	16.9	Receivables days	69.5	69.3	65.8	67.7
Gross margin	21.6	15.9	16.3	15.1	Payable days	42.3	35.1	34.3	34.3
EBITDA margin	17.4	10.5	11.7	10.5	Net debt/equity (%)	7.1	12.0	16.0	19.5
EBIT margin	9.1	2.1	4.2	5.5	Interest cover - EBIT (X)	4.5	1.1	2.3	2.9
Cash flow statement (NT\$ mn)	12/07	12/08E	12/09E	12/10E	Valuation	12/07	12/08E	12/09E	12/10E
Net income pre-preferred dividends	8,255.1	6,609.8	6,851.9	8,012.4	P/E (analyst) (X)	6.0	7.4	7.2	6.1
D&A add-back	2,026.5	2,059.5	2,063.8	1,424.1	P/B (X)	0.6	0.6	0.6	0.6
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	30.0	22.9	19.6	22.0
Net (inc)/dec working capital	(2,490.7)	3,353.2	738.8	442.1	Dividend yield (%)	12.6	10.5	10.9	12.7
Other operating cash flow	(5,758.6)	(4,629.9)	(4,817.6)	(5,673.3)					
Cash flow from operations	2,032.3	7,392.6	4,836.8	4,205.3					
Capital expenditures	(155.1)	(147.3)	(139.9)	(132.9)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	3,801.2	(2,248.7)	(3,131.7)	(2,272.9)					
Cash flow from investments	3,646.2	(2,396.0)	(3,271.7)	(2,405.9)					
Dividends paid (common & pref)	(5,623.7)	(6,266.1)	(5,155.5)	(5,344.5)					
Inc/(dec) in debt	(2,564.1)	807.9	273.9	440.5					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	908.0	435.4	0.0	0.0					
Cash flow from financing	(7,279.8)	(5,022.8)	(4,881.6)	(4,904.0)					
Total cash flow	(1,601.3)	(26.2)	(3,316.4)	(3,104.6)					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Previous NAV calculation

Equity investment values are market values based on the closing price of September 19, 2008

	Ownership	Estimated value (NT\$ mn)	Per share value (NT\$)
Core business value			
Cement	100%	55,665.4	16.9
Hopping Power	60%	36,788.8	6.7
Total operating value per share			23.6
Equity investment value			
China Synthetic Rubber (2104.TW)	8.80%	10,104	0.27
Chinatrust FHC (2891.TW)	0.03%	144,213	0.01
Chien Kuo Construction (5515.TW)	2.77%	2,556	0.02
China Hi-Ment (9930.TW)	12.23%	8,913	0.33
Anhui Conch (0914.HK)	4.00%	169,108	2.05
Taiwan Prosperity Chemical (4725.TW)	54.20%	9,124	1.50
CTCI (9833.TW)	1.42%	12,186	0.05
TTV (8329.TWO)	4.84%	3,380	0.05
Ta-Ho (6701.TWO)	64.79%	5,256	1.03
KGI Securities (6008.TWO)	3.43%	28,172	0.29
E-One Moli Energy (3127.TWO)	3.23%	4,861	0.05
Industrial Bank of Taiwan (2897.TWO)	1.25%	13,028	0.05
Taishin FHC (2887.TW)	0.63%	39,743	0.08
China Steel Chem (1723.TW)	1.71%	15,327	0.08
Chia Hsin Cement (1103.TW)	3.43%	10,568	0.11
Total equity investment value per share			6.0
Other non-listed equity investment	100%	12,750	3.9
Book value of land	100%	7,440	2.3
Net debt	100%	13,650	4.1
Total equity value			31.6

Source: Company data, TEJ, Goldman Sachs Research estimates

Exhibit 2: New NAV calculation

Equity investment values are market values based on the closing price of October 29, 2008

	Ownership	Estimated value (NT\$ mn)	Per share value (NT\$)
Core business value			
Cement	100%	42,279.6	12.8
Hopping Power	60%	36,788.8	6.7
Total operating value per share			19.5
Equity investment value			
China Synthetic Rubber (2104.TW)	8.80%	12,111	0.32
Chinatrust FHC (2891.TW)	0.03%	75,154	0.01
Chien Kuo Construction (5515.TW)	2.77%	2,257	0.02
China Hi-Ment (9930.TW)	12.23%	6,077	0.23
Anhui Conch (0914.HK)	4.00%	97,883	1.19
Taiwan Prosperity Chemical (4725.TW)	54.20%	5,824	0.96
CTCI (9833.TW)	1.42%	11,744	0.05
TTV (8329.TWO)	4.84%	3,240	0.05
Ta-Ho (6701.TWO)	64.79%	3,754	0.74
KGI Securities (6008.TWO)	3.43%	16,700	0.17
E-One Moli Energy (3127.TWO)	3.23%	3,639	0.04
Industrial Bank of Taiwan (2897.TWO)	1.25%	9,538	0.04
Taishin FHC (2887.TW)	0.63%	24,668	0.05
China Steel Chem (1723.TW)	1.71%	10,186	0.05
Chia Hsin Cement (1103.TW)	3.43%	6,599	0.07
Total equity investment value per share			4.0
Other non-listed equity investment	100%	10,200	3.1
Market value of land	100%	7,440	2.3
Net debt	100%	13,650	4.1
Total equity value			24.7

Source: Company data, TEJ, Goldman Sachs Research estimates

Exhibit 3: 3Q08 results summary

	NT\$ mn	3Q07	1Q08	2Q08	3Q08	qoq	yoy	1Q08-3Q08	2008E GS estimates	Full year achievement rate
Sales	5,918	5,959	6,302	6,174	-2%	4%	18,435	24,504	75%	
Gross profit	684	401	366	547	50%	-20%	1,313	1,848	71%	
Operating profit	420	109	109	251	131%	-40%	468	525	89%	
Investment income	1,973	903	1,506	899	-40%	-54%	3,309	4,630	71%	
Pre-tax earnings	3,385	1,297	1,623	1,183	-27%	-65%	4,103	7,185	57%	
Net earnings	3,219	1,282	2,265	1,099	-51%	-66%	4,646	6,610	70%	
EPS (NT\$)	0.99	0.39	0.69	0.33	-52%	-67%	1.41	2.01	70%	
Gross margin (%)	12%	7%	6%	9%	3.06ppt	-2.70ppt	7%	8%		
Operating margin (%)	7%	2%	2%	4%	2.34ppt	-3.03ppt	3%	2%		
Net margin (%)	54%	22%	36%	18%	-18.13ppt	-36.60ppt	25%	27%		

Note: The gross profit calculated in this table includes depreciation and amortization while the gross profit in the summary financials excludes these items.

Source: Company data, TEJ, Goldman Sachs Research estimates

Reg AC

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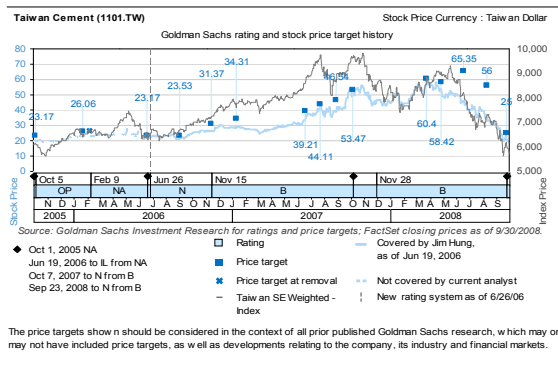
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Price target and rating history chart(s)



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