

COMPANY UPDATE

ASUSTeK Computer (2357.TW)

Neutral

4Q demand continues to deteriorate across all products. Lower TP**What's changed**

Best Buy (BBY, Neutral), the No. 1 US electronics chain, lowered its 2009 profit forecast on Nov 12, driven by weak consumer spending. This is another headwind following Circuit City (CC), the No. 2 US electronics chain, filing for Chapter 11 bankruptcy protection on Nov 10. While we do not know what products caused the major shortfall for Best Buy as the company did not disclose the details, we have learned from the supply chain that both ASUSTeK's own brand and ODM businesses are weakening on the back of demand deterioration. ASUSTeK has little exposure in CC but has recently increased exposure to BBY starting from late last year, though ASUSTeK's overall exposure to the US remains small at roughly 10% of its total revenues in 3Q08. We have therefore revised down 2008/09/10 revenues by 0.6%/0.9%/0.4% and 2008/09/10 profits by 1.1%/7.5%/7.5% respectively.

Implications

Our supply chain checks indicate that ASUSTeK recently revised down 4Q orders placed to its major component suppliers including both IC and non-IC parts. ASUSTeK's component suppliers believe this could be related to weak demand and component inventory adjustment. On the other hand, our checks with the supply chain also indicate that 4Q OEM orders to Pegatron have continued to trend down in PC, MP3 and game console while inventories have picked up. Though Pegatron could add new Toshiba's order in 2009 (based on our industry checks and media reports Commercial Times 2008/9/4), we expect Pegatron's 2009 sales growth to be limited on potential decline in DTs/MBs.

Valuation

We lower our 12-month target price to NT\$46 (from NT\$52), based on SOTP valuation (10X 09E OBM EPS, 6X 09E ODM EPS, and discounted Kinsus MV). We maintain our Neutral rating on the stock.

Key risks

Greater-than-expected demand slowdown, component shortage, and stiffer-than-expected price competition in NBs and low-price PCs.

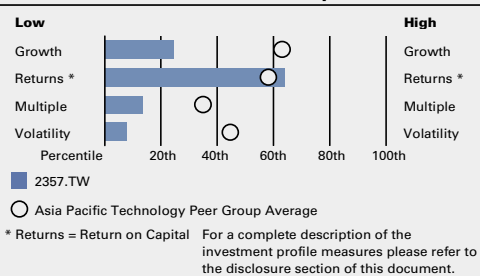
INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: NeutralTaiwan:
Hardware

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Investment Profile: ASUSTeK Computer

Key data	Current
Price (NT\$)	42.20
12 month price target (NT\$)	46.00
Market cap (NT\$ mn / US\$ mn)	179,183.4 / 5,451.8
Foreign ownership (%)	31.5

	12/07	12/08E	12/09E	12/10E
EPS (NT\$) New	6.84	6.22	5.94	5.98
EPS revision (%)	0.0	(1.1)	(7.5)	(7.5)
EPS growth (%)	39.7	(9.0)	(4.5)	0.7
EPS (dil) (NT\$) New	6.76	6.22	5.94	5.98
P/E (X)	6.2	6.8	7.1	7.1
P/B (X)	1.1	1.0	0.9	0.9
EV/EBITDA (X)	8.0	3.5	2.6	2.2
Dividend yield (%)	5.4	3.7	3.7	3.8
ROE (%)	18.8	15.7	14.0	12.8

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	(47.6)	(51.7)	(54.7)
Rel. to Taiwan SE Weighted Index	(17.1)	(7.5)	(14.9)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 11/12/2008 close.

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ASUSTeK Computer: 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	755,360.7	795,210.0	830,395.2	886,438.0	Cash & equivalents	43,585.8	57,434.2	80,053.2	93,321.9
Cost of goods sold	(680,591.8)	(707,611.2)	(743,105.4)	(795,284.1)	Accounts receivable	129,134.5	89,513.1	91,761.1	93,160.2
SG&A	(36,995.8)	(47,853.2)	(47,125.4)	(50,131.6)	Inventory	103,423.8	104,251.5	109,910.1	123,091.0
R&D	(9,102.2)	(12,072.0)	(10,159.5)	(10,754.4)	Other current assets	25,590.2	31,408.8	31,528.9	32,285.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	301,734.2	282,607.6	313,253.3	341,858.1
ESO expense	--	--	--	--	Net PP&E	63,176.7	66,872.6	68,345.5	68,197.6
EBITDA	36,780.0	36,713.8	40,099.9	41,326.5	Net intangibles	1,986.8	2,314.9	2,314.9	2,314.9
Depreciation & amortization	(8,109.1)	(9,040.1)	(10,095.0)	(11,058.6)	Total investments	0.0	0.0	0.0	0.0
EBIT	28,670.9	27,673.8	30,004.9	30,267.9	Other long-term assets	6,645.3	6,045.7	6,045.7	6,045.7
Interest income	1,636.0	1,050.0	1,240.0	1,600.0	Total assets	385,742.0	370,311.4	402,430.0	430,886.8
Interest expense	(804.1)	(557.1)	(537.1)	(517.1)	Accounts payable	141,564.9	116,850.5	132,426.4	144,170.6
Income/(loss) from uncons. subs.	422.9	108.6	0.0	0.0	Short-term debt	7,165.9	7,165.9	7,165.9	7,165.9
Others	8,658.3	7,100.8	3,200.0	3,000.0	Other current liabilities	37,263.4	38,575.7	37,800.0	36,965.6
Pretax profits	38,584.1	35,376.1	33,907.9	34,350.9	Total current liabilities	185,994.3	162,592.2	177,392.3	188,302.1
Income tax	(7,828.4)	(7,177.6)	(6,871.0)	(7,133.9)	Long-term debt	16,389.0	17,061.7	17,061.7	17,061.7
Minorities	(3,132.4)	(2,335.6)	(2,325.2)	(2,340.7)	Other long-term liabilities	22,409.5	22,409.5	22,409.5	22,409.5
Net income pre-preferred dividends	27,623.3	25,862.9	24,711.7	24,876.3	Total long-term liabilities	38,798.5	39,471.2	39,471.2	39,471.2
Preferred dividends	0.0	0.0	0.0	0.0	Total liabilities	224,792.8	202,063.3	216,863.5	227,773.3
Net income (pre-exceptionals)	27,623.3	25,862.9	24,711.7	24,876.3	Preferred shares	0.0	0.0	0.0	0.0
Post-tax exceptionals	0.0	0.0	0.0	0.0	Total common equity	160,949.2	168,248.1	185,566.5	203,113.5
Net income	27,623.3	25,862.9	24,711.7	24,876.3	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, pre-except) (NT\$)	6.84	6.22	5.94	5.98	Total liabilities & equity	385,742.0	370,311.4	402,430.0	430,886.8
EPS (basic, post-except) (NT\$)	6.84	6.22	5.94	5.98	BVPS (NT\$)	39.83	40.47	44.63	48.86
EPS (diluted, post-except) (NT\$)	6.76	6.22	5.94	5.98					
EPS excl. ESO expense (basic) (NT\$)	6.84	6.71	6.33	6.32					
EPS excl. ESO expense (dil.) (NT\$)	6.76	6.71	6.33	6.32					
DPS (NT\$)	2.26	1.56	1.55	1.62					
Dividend payout ratio (%)	33.1	25.0	26.0	27.0					
Free cash flow yield (%)	4.4	13.9	18.5	13.3					
Growth & margins (%)	12/07	12/08E	12/09E	12/10E	Ratios	12/07	12/08E	12/09E	12/10E
Sales growth	34.8	5.3	4.4	6.7	ROE (%)	18.8	15.7	14.0	12.8
EBITDA growth	40.0	(0.2)	9.2	3.1	ROA (%)	7.4	6.8	6.4	6.0
EBIT growth	40.9	(3.5)	8.4	0.9	ROACE (%)	23.5	20.2	20.0	20.0
Net income growth	43.7	(6.4)	(4.5)	0.7	Inventory days	57.3	53.6	52.6	53.5
EPS growth	39.7	(9.0)	(4.5)	0.7	Receivables days	63.2	50.2	39.8	38.1
Gross margin	9.9	11.0	10.5	10.3	Payable days	82.7	66.6	61.2	63.5
EBITDA margin	4.9	4.6	4.8	4.7	Net debt/equity (%)	(20.4)	(27.7)	(37.3)	(40.6)
EBIT margin	3.8	3.5	3.6	3.4	Interest cover - EBIT (X)	NM	NM	NM	NM
					Valuation	12/07	12/08E	12/09E	12/10E
Cash flow statement (NT\$ mn)	12/07	12/08E	12/09E	12/10E	P/E (analyst) (X)	6.2	6.8	7.1	7.1
Net income pre-preferred dividends	27,623.3	25,862.9	24,711.7	24,876.3	P/B (X)	1.1	1.0	0.9	0.9
D&A add-back	8,109.1	9,040.1	10,095.0	11,058.6	EV/EBITDA (X)	8.0	3.5	2.6	2.2
Minorities interests add-back	0.0	0.0	0.0	0.0	Dividend yield (%)	5.4	3.7	3.7	3.8
Net (inc)/dec working capital	(15,373.2)	14,079.2	7,669.2	(2,835.7)					
Other operating cash flow	11,571.8	(17,842.0)	(895.8)	(1,590.5)					
Cash flow from operations	28,405.1	34,964.3	41,580.1	31,508.7					
Capital expenditures	(14,868.5)	(10,902.9)	(9,734.7)	(9,077.6)					
Acquisitions	0.0	(1,705.4)	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(2,941.9)	(396.3)	(1,683.1)	(1,683.1)					
Cash flow from investments	(17,810.4)	(13,004.7)	(11,417.8)	(10,760.7)					
Dividends paid (common & pref)	(6,244.5)	(9,146.5)	(6,465.7)	(6,425.0)					
Inc/(dec) in debt	818.6	775.8	0.0	0.0					
Common stock issuance (repurchase)	3,049.3	(0.9)	0.0	0.0					
Other financing cash flows	838.0	524.2	(1,077.5)	(1,054.3)					
Cash flow from financing	(1,538.5)	(7,847.4)	(7,543.2)	(7,479.3)					
Total cash flow	8,894.4	13,848.4	22,619.0	13,268.7					

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

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Lowering 2Q08 earnings estimate on shipment result weakness

Exhibit 1: Goldman Sachs forecast revisions

Consolidated financials	Revised	Original	
(NT\$ mn)	(fully-loaded)	(fully-loaded)	Difference
	2008E	2008E	
Revenue	795,210	799,613	-0.6%
Gross profits	87,599	88,298	-0.8%
Operating profits	27,674	28,058	-1.4%
Pretax earnings	35,376	35,761	-1.1%
Net earnings	25,863	26,148	-1.1%
Basic EPS (NT\$)	6.22	6.29	-1.1%
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Gross profit margin	11.0%	11.0%	
Operating margin	3.5%	3.5%	
Net margin	3.3%	3.3%	

Consolidated financials	Revised	Original	
(NT\$ mn)	(fully-loaded)	(fully-loaded)	Difference
	2009E	2009E	
Revenue	830,395	837,967	-0.9%
Gross profits	87,290	90,556	-3.6%
Operating profits	30,005	32,744	-8.4%
Pretax earnings	33,908	36,647	-7.5%
Net earnings	24,712	26,705	-7.5%
Basic EPS (NT\$)	5.94	6.42	-7.5%
<hr/>			
Gross profit margin	10.5%	10.8%	
Operating margin	3.6%	3.9%	
Net margin	3.0%	3.2%	

Source: Goldman Sachs Research estimates.

Reg AC

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Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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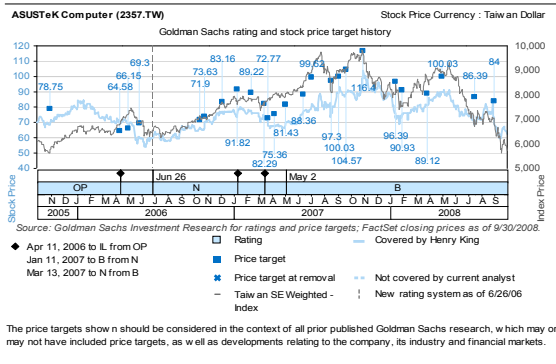
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Price target and rating history chart(s)



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