

Catcher Technology

Relatively good outlook, but still hampered by macro headwinds; upgrade to Neutral

- Upgrade to Neutral with PT of NT\$54:** We upgrade Catcher to Neutral from Underweight with a Jun-09 PT of NT\$54 (1.0x FY09E book), due to better competitive landscape (in Catcher's favor) in the notebook light metal space, cheap valuation, and better balance sheet metrics. Catcher should gain market share at the expense of Foxconn Tech in the notebook space, but all its key end markets (corporate notebooks, MP3 players, and high-end consumer notebooks) should see a meaningful decline in 2009. In addition, we feel Catcher should demonstrate more focus on the core biz rather than exploring new, unrelated product categories such as touch panels. We would turn more positive if light metal price reductions finally trigger adoption in consumer notebooks or if Apple significantly cuts prices on light-metal-based Macbooks. Key risk: continued heavy investment in new ventures.
- Near-term competitive dynamics are in favor:** We expect light metal market share to consolidate towards the top 2 vendors due to financial difficulties for marginal players and delay in ramp up of new projects at Compal. In addition, we feel that Hon Hai's aggressive notebook ODM foray will also drive notebook ODMs like Quanta closer to Catcher. In the longer-term, Compal's light metal venture still remains a threat for Catcher, especially in Dell notebooks.
- Balance sheet metrics mixed, but better than Foxconn Tech:** Catcher is not very highly leveraged and balance sheet is also quite clean, compared to its peers. However, over-reliance on two customers (Dell and Apple) has resulted in tougher payment terms and much higher receivable days (120+ days). This is not a recent issue but we do not expect any improvement, given continued focus on these two customers.
- Macro outlook hampers an otherwise decent year in 2009E:** Catcher is exposed to two of the end markets that are likely to see the steepest demand fall in 2009 – large corporate notebooks and MP3 players.

▲ Neutral

Previous: Underweight

2474.TW, 2474 TT

Price: NT\$49.75

▼ Price Target: NT\$54.00

Previous: NT\$90.00

Taiwan Electronics

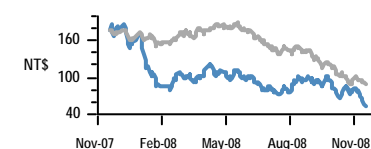
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J.P. Morgan Securities (Taiwan) Limited.

Price Performance



	YTD	1m	3m	12m
ABS	-68.9%	-36.8%	-42.4%	-69.9%
REL	-19.5%	-24.1%	-3.9%	-19.5%

Reuters: 2474.TW, Bloomberg: 2474 TT

NT\$ MM, year-end Dec.	FY07	FY08E	FY09E	FY10E	FY07	FY08E	FY09E	FY10E	52-Week range	53.40 - 186.36	
Sales	18,098	19,153	19,887	20,961	ROE (%)	30.7%	15.8%	13.0%	12.9%	Market Cap (NT\$)	26,944 MM
Operating Profit	7,433	5,078	4,647	4,796	Core ROIC (%)	35.8%	18.9%	15.2%	15.3%	Market Cap (US\$)	812 MM
EBITDA	8,035	6,842	7,026	7,575	Cash Div (NT\$)	3.0	4.0	3.5	3.5	Shares Outstg (Com)	541.6 MM
Pre-Tax Profit	7,708	5,328	4,866	5,030	Quarterly EPS (NT\$)	1Q	2Q	3Q	4Q	Avg daily value	US\$30 MM
Net profit (reported)	7,204	4,575	4,260	4,453	EPS (FY07)	2.86	1.96	3.28	3.59	Avg daily value	NT\$1,006.8MM
MV of Employee Bonus	293	575	531	543	EPS (FY08) E	1.44	1.52	2.35	2.37	2009E div Yield (%)	7.0%
Net Profit (adjusted)	6,930	4,575	4,260	4,453	EPS (FY09) E	1.51	1.36	1.95	2.29	2010E div Yield (%)	7.0%
New Taiwan GAAP EPS (NT\$)	11.7	7.7	7.1	7.4	Sales growth	20%	6%	4%	5%	Exchange rate	33.2/ US\$
New Taiwan GAAP P/E (x)	4.3	6.5	7.0	6.7	EPS growth	17%	-34%	-8%	5%	Index (TWSE)	4,305
Y/E BPS (NT\$)	43.5	53.2	55.9	58.9	Norm. OP growth	8%	-24%	-8%	1%	QFII Holdings (%)	16%
P/B (x)	1.1	0.9	0.9	0.8	Jun-09 price target	NT\$			54	Share price date	19 Nov. 2008
Net Cash	4,299	3,197	3,883	4,427							

Source: Company reports, Bloomberg, J.P. Morgan estimates. * Retroactive adjustment for employee bonus expense is done for like-to-like comparison.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Earnings estimate revisions

Figure 1: Catcher Technology - Earnings estimate revisions

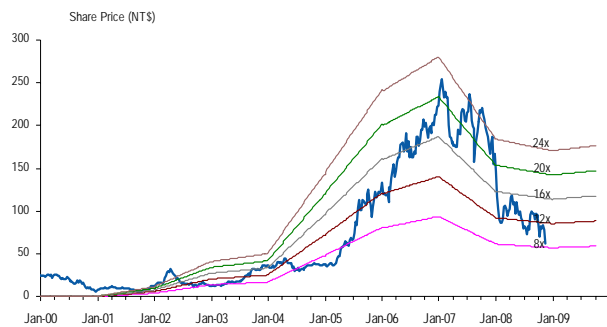
NT\$ in millions, year-end December

	Revised				Prior				Change			
	4Q08E	1Q09E	2008E	2009E	4Q08E	1Q09E	2008E	2009E	4Q08E	1Q09E	2008E	2009E
Sales	5,798	4,289	19,153	19,887	6,017	4,547	19,394	20,210	-3.6%	-5.7%	-1.2%	-1.6%
Gross profit	2,431	1,612	7,847	7,601	2,186	1,538	7,293	7,129	11.2%	4.9%	7.6%	6.6%
<i>Gross margin</i>	<i>41.9%</i>	<i>37.6%</i>	<i>41.0%</i>	<i>38.2%</i>	<i>36.3%</i>	<i>33.8%</i>	<i>37.6%</i>	<i>35.3%</i>	<i>559 bps</i>	<i>378 bps</i>	<i>336 bps</i>	<i>295 bps</i>
OP profit	1,536	965	5,078	4,647	1,658	1,138	5,135	5,366	-7.4%	-15.2%	-1.1%	-13.4%
<i>OP margin</i>	<i>26.5%</i>	<i>22.5%</i>	<i>26.5%</i>	<i>23.4%</i>	<i>27.6%</i>	<i>25.0%</i>	<i>26.5%</i>	<i>26.6%</i>	<i>-107 bps</i>	<i>-254 bps</i>	<i>4 bps</i>	<i>-319 bps</i>
Net income	1,412	906	4,575	4,260	1,617	1,142	4,722	5,331	-12.7%	-20.7%	-3.1%	-20.1%
TW GAAP EPS (NT\$)	2.37	1.51	7.68	7.10	2.96	2.09	8.70	9.77	-20.0%	-27.8%	-11.8%	-27.3%

Source: Company reports and J.P. Morgan estimates.

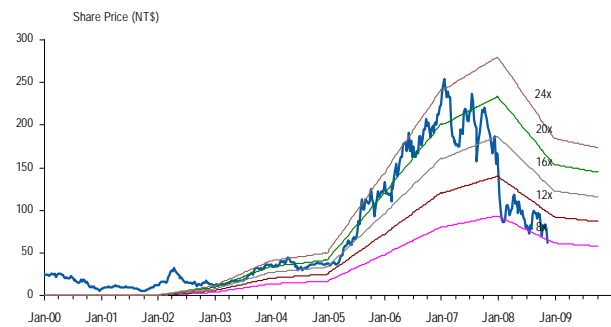
Valuation: Neutral with Jun-09 PT of NT\$54

Figure 1: 12M Forward P/E



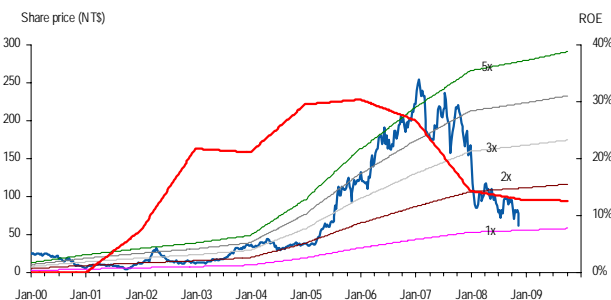
Source: Company reports, Datastream, and J.P. Morgan estimates.

Figure 2: 12M Trailing P/E



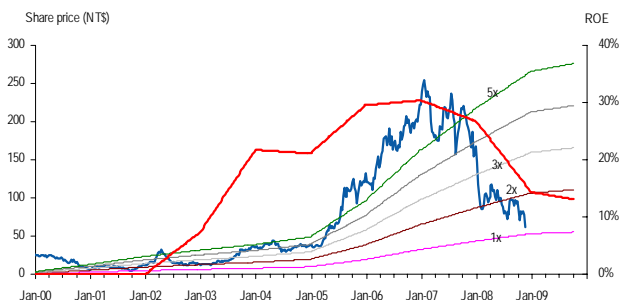
Source: Company reports, Datastream, and J.P. Morgan estimates.

Figure 3: 12M Forward P/BV



Source: Company reports, Datastream, and J.P. Morgan estimates.

Figure 4: 12M Trailing P/BV



Source: Company reports, Datastream, and J.P. Morgan estimates.

Table 2: Catcher Technology: Quarterly earnings model

NT\$MM	1Q 07	2Q 07	3Q 07	4Q 07	1Q 08	2Q 08	3Q 08	4Q 08E	1Q 09E	2Q 09E	3Q 09E	4Q 09E	2007	2008E	2009E	2010E
Revenue	3,653	3,825	5,129	5,491	4,028	4,309	5,018	5,798	4,289	4,532	5,039	6,026	18,098	19,153	19,887	20,961
Gross Profit	1,953	1,867	2,318	2,571	1,357	1,944	2,114	2,431	1,612	1,687	1,958	2,343	8,709	7,961	7,707	7,899
EBIT	1,690	1,591	1,984	2,168	907	1,205	1,431	1,536	965	1,017	1,212	1,453	7,433	5,193	4,753	4,796
Total Non-Operating Income	96	0	120	60	5	129	104	12	39	62	67	51	275	250	220	234
Profit Before Taxes	1,785	1,591	2,104	2,228	912	1,333	1,535	1,548	1,004	1,080	1,280	1,504	7,708	5,443	4,972	5,030
Income Tax Expense	26	391	80	7	52	425	128	136	98	263	113	132	504	741	606	577
Net Profit (reported)	1,759	1,200	2,024	2,221	859	904	1,401	1,412	906	816	1,167	1,371	7,204	4,575	4,260	4,453
Net Profit (adjusted)	1,692	1,158	1,943	2,137	859	904	1,401	1,412	906	816	1,167	1,371	6,930	4,575	4,260	4,453
Pre-tax EPS (NT\$)	3.01	2.69	3.55	3.74	1.53	2.24	2.58	2.60	1.67	1.80	2.13	2.51	12.99	8.94	8.11	8.39
EPS (reported, NT\$)	2.97	2.03	3.42	3.73	1.44	1.52	2.35	2.37	1.51	1.36	1.95	2.29	12.15	7.68	7.10	7.43
EPS (adjusted, NT\$)	2.86	1.96	3.28	3.59	1.44	1.52	2.35	2.37	1.51	1.36	1.95	2.29	11.68	7.68	7.10	7.43
Margin (%)																
Gross Margin	53.5	48.8	45.2	46.8	33.7	45.1	42.1	41.9	37.6	37.2	38.9	38.9	48.1	41.6	38.8	37.7
Operating Margin	46.3	41.6	38.7	39.5	22.5	28.0	28.5	26.5	22.5	22.4	24.1	24.1	41.1	27.1	23.9	22.9
Net Margin (adjusted)	46.3	30.3	37.9	38.9	21.3	21.0	27.9	24.3	21.1	18.0	23.2	22.8	39.8	23.9	21.4	21.2
Sequential Growth (%)																
Revenue	(23.6)	4.7	34.1	7.1	(26.6)	7.0	16.4	15.6	(26.0)	5.7	11.2	19.6	19.6	5.8	3.8	5.4
Gross profit	(26.4)	(4.4)	24.2	10.9	(47.2)	43.3	8.7	15.0	(33.7)	4.6	16.1	19.6	9.9	(8.6)	(3.2)	2.5
Operating profit	(25.0)	(5.8)	24.7	9.3	(58.2)	32.8	18.8	7.3	(37.2)	5.4	19.2	19.9	8.1	(30.1)	(8.5)	0.9
Net profit (adjusted)	(20.8)	(31.5)	67.7	10.0	(59.8)	5.3	54.9	0.8	(35.8)	(9.9)	43.0	17.5	18.5	(34.0)	(6.9)	4.5
EPS (adjusted)	(20.8)	(31.5)	67.7	9.3	(59.8)	5.3	54.9	0.8	(36.3)	(9.9)	43.0	17.5	16.9	(34.3)	(7.5)	4.5
Revenue Breakdown (%)																
Notebook	60.7	56.8	56.4	47.0	56.0	57.4	65.5	59.2	69.1	69.4	70.4	61.6	54.5	59.8	67.2	71.8
Handset	19.5	21.7	17.6	16.6	16.7	15.0	9.4	8.8	6.4	6.4	6.7	6.2	18.6	12.0	6.4	5.6
Consumer electronics	12.3	11.7	18.2	29.1	20.0	18.3	16.9	24.0	16.5	16.2	15.0	24.6	18.9	20.0	18.5	14.8
Others (incl. automobile)	7.5	9.9	7.7	7.2	7.3	9.4	8.2	7.9	8.0	8.0	7.9	7.6	8.0	8.2	7.9	7.7
Sequential Growth by product (%)																
Notebook	-17.4%	-2.0%	33.3%	-10.6%	-13.0%	9.7%	35.1%	3.0%	-13.8%	6.2%	12.7%	4.7%	6.1	16.4	16.4	12.6
Handset	-23.3%	16.3%	9.2%	1.1%	-26.5%	-4.3%	-25.6%	7.1%	-46.6%	5.6%	16.3%	10.5%	27.9	(31.3)	(44.9)	(6.8)
Consumer electronics	-39.3%	-0.7%	109.1%	71.7%	-49.7%	-2.4%	9.4%	61.7%	-49.1%	3.7%	3.3%	95.8%	74.0	12.0	(4.2)	(15.5)
Others (incl. automobile)	-40.0%	37.8%	5.0%	0.0%	-26.5%	37.8%	4.0%	10.0%	-25.0%	5.0%	10.0%	15.0%	-	-	-	-

Source: Company reports, J.P. Morgan estimates.

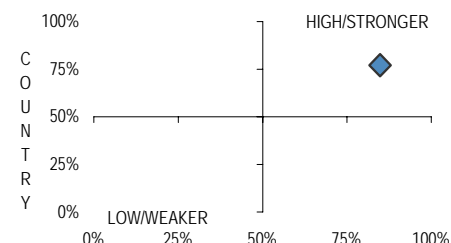
All Data As Of 19-Nov-08

Q-Snapshot: Catcher Technology Co. Ltd.

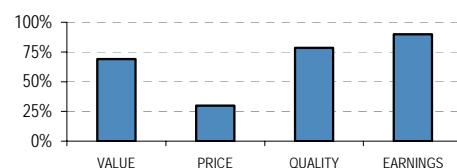
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country	vs Industry	Raw Value
Value			
P/E Vs Market (12mth fwd EPS)	75%	83%	0.5x
P/E Vs Sector (12mth fwd EPS)	77%	93%	0.4x
EPS Growth (forecast)	35%	14%	-13.7%
Value Score	69%	81%	
Price Momentum			
12 Month Price Momentum	26%	27%	-68.3%
1 Month Price Reversion	79%	94%	-34.9%
Momentum Score	30%	44%	
Quality			
Return On Equity (forecast)	75%	78%	21.7%
Earnings Risk (Variation in Consensus)	75%	81%	0.09
Quality Score	79%	84%	
Earnings & Sentiment			
Earnings Momentum 3mth (risk adjusted)	73%	51%	-66.2
1 Mth Change in Avg Recom.	90%	91%	0.20
Net Revisions FY2 EPS	78%	74%	-25%
Earnings & Sentiment Score	90%	82%	
COMPOSITE Q-SCORE* (0% To 100%)	77%	85%	

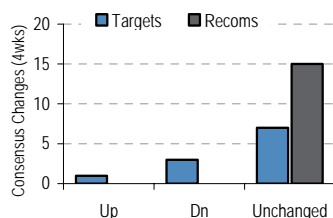
J.P. Morgan Composite Q-Score



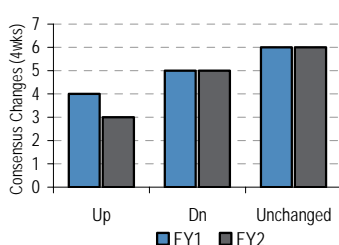
Quant Return Drivers Summary (vs Country)



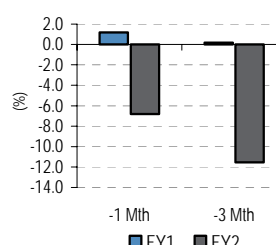
Targets & Recommendations**



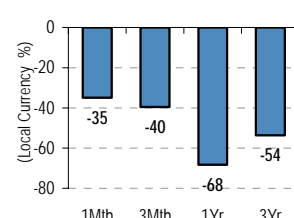
EPS Revisions**



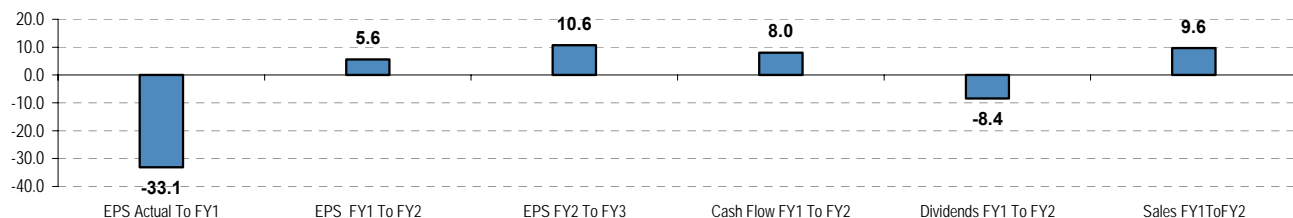
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score*
2890-TW	SinoPac Financial Holdings Co. Ltd.	Regional Banks	1,285	4.32	345.6	17%
1722-TW	Taiwan Fertilizer Co. Ltd.	Chemicals: Agricultural	1,260	39.47	10.5	30%
2347-TW	Synnex Technology International Corp.	Electronics Distributors	1,138	22.92	8.7	53%
2610-TW	China Airlines Ltd.	Airlines	1,077	6.59	-2.8	
2606-TW	U-Ming Marine Transport Corp.	Marine Shipping	1,072	17.02	3.2	80%
2474-TW	Catcher Technology Co. Ltd.	Miscellaneous Manufacturing	1,041	34.57	6.6	77%
3008-TW	LARGAN Precision Co. Ltd.	Electronics/Appliance Stores	1,006	23.34	9.2	86%
2615-TW	Wan Hai Lines Ltd.	Marine Shipping	944	1.80	9.6	71%
2618-TW	EVA Airways Corp.	Airlines	930	6.77	-2.9	
3231-TW	Wistron Corp.	Computer Processing Hardware	915	16.52	3.7	81%
6239-TW	Powertech Technology Inc.	Semiconductors	879	13.81	4.0	80%

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.
* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

Catcher Technology: Summary of financials

NT\$ million, year-end 31 December

Profit and loss statement					Ratio Analysis				
Year-end December					Year-end December				
	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E
Revenues	18,098	19,153	19,887	20,961	EBITDA margin (%)	44.4%	35.7%	35.3%	36.1%
% change yoy	19.6%	5.8%	3.8%	5.4%	Operating margin (%)	41.1%	26.5%	23.4%	22.9%
Gross margin (%)	48.1%	41.0%	38.2%	37.7%	Net profit margin (%)	38.3%	23.9%	21.4%	21.2%
EBITDA	8,035	6,842	7,026	7,575	SG&A/sales (%)	6.7%	6.8%	6.7%	6.7%
% change yoy	7.9%	-14.8%	2.7%	7.8%	Sales per share growth (%)	18.0%	5.4%	3.1%	5.4%
EBITDA margin (%)	44.4%	35.7%	35.3%	36.1%	Sales growth (%)	19.6%	5.8%	3.8%	5.4%
EBIT	7,433	5,078	4,647	4,796	Net profit growth (reported, %)	11.2%	-36.5%	-6.9%	4.5%
% change yoy	8.1%	-31.7%	-8.5%	3.2%	Net profit growth (adjusted, %)	18.5%	-34.0%	-6.9%	4.5%
EBIT margin (%)	41.1%	26.5%	23.4%	22.9%	EPS growth (reported, %)	9.8%	-36.8%	-7.5%	4.5%
Net interest	61	48	107	112	EPS growth (adjusted, %)	16.9%	-34.3%	-7.5%	4.5%
Earnings before tax	7,708	5,328	4,866	5,030	Interest Coverage (x)	149.3	17.8	13.3	13.0
% change yoy	10.0%	-30.9%	-8.7%	3.4%	Net debt to total Capital (%)	-13%	-8%	-9%	-10%
Tax	504	741	606	577	Net debt to equity (%)	-17%	-10%	-12%	-13%
as % of EBIT	6.8%	14.6%	13.0%	12.0%	Sales/Assets (%)	50%	39%	39%	39%
Net income (reported)	7,204	4,575	4,260	4,453	Assets/Equity (%)	140.9%	154.1%	153.8%	152.2%
% change yoy	11.2%	-36.5%	-6.9%	4.5%	ROE (%)	30.7%	15.8%	13.0%	12.9%
Net income (adjusted)	6,930	4,575	4,260	4,453	ROCE (%)	25.6%	11.7%	9.4%	9.4%
% change yoy	18.5%	-34.0%	-6.9%	4.5%					
Shares outstanding (MM)	593	596	600	600					
EPS (reported)	12.15	7.68	7.10	7.43					
EPS (adjusted)	11.68	7.68	7.10	7.43					
Balance Sheet					Cash flow statement				
Year-end December					Year-end December				
	FY07	FY08E	FY09E	FY10E		FY07	FY08E	FY09E	FY10E
Cash and Cash Equivalents	10,972	13,673	14,688	15,699	EBIT	7,433	5,078	4,647	4,796
Accounts receivable	7,675	8,261	8,586	8,472	Depreciation & amortisation	602	1,764	2,380	2,778
Inventories	2,346	3,271	3,302	3,258	Change in working capital	-958	-2,140	-69	156
Others	169	3,654	3,798	3,748	Taxes	504	741	606	577
Current assets	21,163	28,858	30,373	31,177	Cash flow from operations	7,581	5,444	7,563	8,308
LT investments	505	577	791	1,008	CAPEX	-5,260	-6,678	-3,000	-4,000
Net fixed assets	14,271	19,185	19,806	21,028	Disposal/ (purchase)	-535	-23	-213	-217
Total Assets	36,530	49,164	51,512	53,755	Net Interest	61	48	107	112
Liabilities					Free cash Flow	2,321	-1,235	4,563	4,308
ST bank loans	6,673	8,601	8,871	9,255	Equity raised/(repaid)	1,274	581	0	0
Payables	2,152	2,148	2,399	2,411	Debt raised/(repaid)	4,079	3,803	329	467
Others	1,704	4,563	4,743	4,680	Other	-1,434	-485	-1,672	-1,559
Total current liabilities	10,529	15,312	16,013	16,346	Dividends	-1,242	12	-2,099	-2,099
Long term debt	0	1,875	1,933	2,017	Beginning cash	6,448	10,972	13,673	14,688
Other liabilities	69	69	69	69	Ending cash	10,972	13,673	14,688	15,699
Total liabilities	10,598	17,256	18,016	18,432	DPS	3.00	4.00	3.50	3.50
Shareholder's equity	25,932	31,907	33,496	35,323					

Source: Company reports and J.P. Morgan estimates.

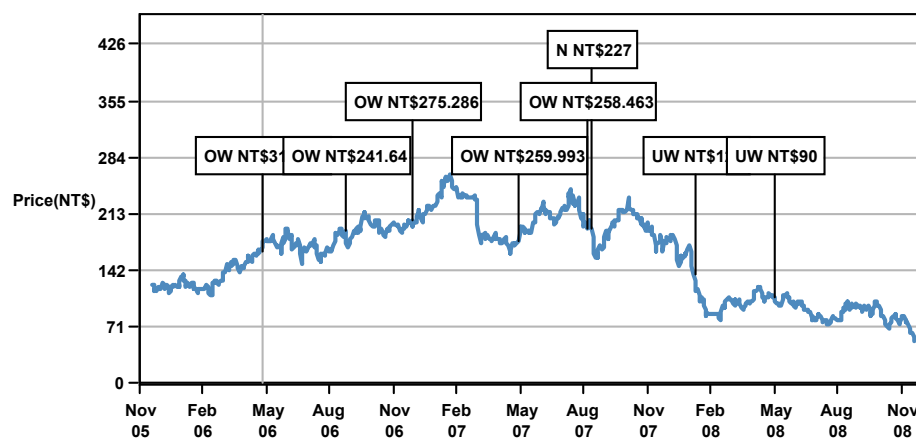
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Catcher Technology (2474.TW) Price Chart



Date	Rating	Share Price (NT\$)	Price Target (NT\$)
01-Feb-05	N	122.64	102.47
26-Apr-06	OW	166.19	317.34
24-Aug-06	OW	192.31	241.64
28-Nov-06	OW	203.50	275.29
01-May-07	OW	179.02	259.99
07-Aug-07	OW	193.71	258.46
13-Aug-07	N	193.36	227.00
09-Jan-08	UW	136.82	120.00
01-May-08	UW	108.64	90.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Aug 03, 2005 - Apr 26, 2006. This chart shows J.P. Morgan’s continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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