

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK:

- We expect 4Q08 loss to erode the bulk of 1H08 profits; our 2009-10 loss estimates are also far below consensus.
- Our TP is Street-low, and current low P/BV valuation is not enough reason to BUY.

Net Loss 09..... TWD54.4b
.....(From TWD26.0b)

Diff from Consensus..... nm
Consensus (mean) ... (TWD17.4b)
Consensus (momentum) ↓

Target Price..... TWD7.50
.....(From TWD16.00)

Diff from Consensus(56.7%)
Consensus (median)....TWD17.31
Consensus (momentum)..... ↓

Current Price..... TWD9.96
Upside/(Downside)..... (24.7%)

REDUCE
(From Hold)

Recs in the Market	
Positive	4
Neutral	7
Negative	9
Consensus (momentum).....	↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Cut 2009-10 losses well below consensus, given unmatched severity of this downturn. LT competitiveness will suffer.
- CMO is at the epicentre of all market fears, with a lack of captive panel demand, inferior cost structure & high gearing.
- REDUCE, TP: TWD7.5 (0.3x '08-09 P/BV), benchmark to valuation of those fighting for survival in other tech sub-space.

At the epicentre of all fears: REDUCE

3Q in-line record loss; it was just the beginning CMO's 3Q08 loss of TWD4.2b was in-line with our estimate. While the 3Q was just the start of CMO's expected loss making multi-quarters, this loss was record-breaking. Its net debt/equity ratio rose to 74% (2Q: 56%), as CMO drew down additional TWD63b of debt ahead of the deadline for 'last drawdown' of the earlier signed syndicated loan.

Highly vulnerable to current long-lasting panel 'ice age' We expect CMO's losses to rise rapidly, as the continued panel-price fall leads to more products below cash-cost levels. Korean peers' cost advantage on weaker KRW and fall in asset depreciation will extend further, as their captive demand/earlier 8G fab-starts make them more cost effective for 32"/46"/47" panels. LGD's new 6G line in 2Q09 for wide-format monitor and notebook panel market and TV-set assembly JV set-up with non tier-1 brands present risks to CMO's home turf. The risk of inventory write-down is also higher for CMO, whose 3Q inventory values or days' inventories stayed flat, despite sharp production cuts.

Preserving cash weakens >40" market readiness CMO's need for cash preservation comes at the expense of its 2009 capex (<TWD50b, >50% y-y drop). We believe a further capex cut and a delay in 8.5G fab ramp-up as possible, which means it will lag behind and be less cost effective when large-sized LCD TV (46"/47") demand takes off. CMO will stay financially viable in 2009, with rapidly rising gearing. While modeling negative FCF of TWD25b and TWD40b of ST debts due in 2009, CMO still has TWD60b of unused credit facilities. If the downturn worsens into 2010, CMO will need extra outside funding.

REDUCE: CMO is a red flag signalling all market fears While we have been cautious on the TFT-LCD sector, we downgrade CMO to REDUCE, as it is likely to suffer most in this downturn. It is at the center of market fears with: 1) a slowdown in outsourced panel market growth, (2) reduced cost competitiveness, (3) rising competition in wide-format monitor/non-tier 1 TV spaces, and (4) high gearing. The severity of this downturn is unmatched, so the use of historical valuation is irrelevant. Our TP of TWD7.5 is based on 0.3x '08-09 P/BV), with reference to those struggling for survival in other tech sub-sectors.

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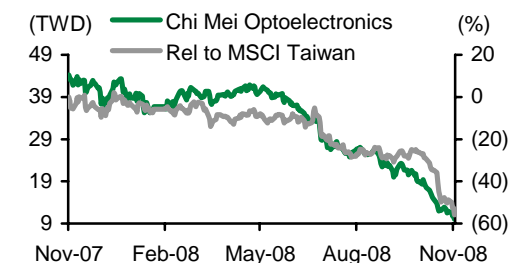
(Full BNP Paribas technology research team list inside)

Earnings Estimates And Valuation Ratios

YE Dec (TWD m)	2007	2008E	2009E	2010E
Revenue	301,911	330,973	250,906	334,545
Reported net profit	35,745	12,688	(54,433)	(16,160)
Recurring net profit	35,745	12,688	(54,433)	(16,160)
Previous rec net profit	35,745	16,542	(25,994)	9,573
Chg from previous (%)	—	(23.3)	—	—
Recurring EPS (TWD)	5.09	1.76	(7.40)	(2.19)
Prev rec EPS (TWD)	5.09	2.30	(3.53)	1.29
Rec EPS growth (%)	669.3	(65.4)	neg	neg
Recurring P/E (x)	2.0	5.7	neg	neg
Dividend yield (%)	1.6	16.0	1.1	—
EV/EBITDA (x)	2.3	2.9	11.6	4.4
Price/book (x)	0.3	0.3	0.5	0.5
ROE (%)	18.8	6.1	(30.3)	(11.3)
Net debt/equity (%)	63.9	78.8	122.9	133.0

Sources: Chi Mei Optoelectronics; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	January 2009
Market cap (USD m)	2,372
12m avg daily turnover (USD m)	57.2
Free float (%)	61
Major shareholder	Chi Mei Corporation (29%)
12m high/low (TWD)	44.19/10.70
ADR (USD)	3.24
Avg daily turnover (USD m)	0.00
Discount/premium (%)	2.2
Disc/premium vs 52-wk avg (%)	2.1

Source: Datastream



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CORPORATE & INVESTMENT BANKING

3Q08 in-line record loss; yet it was just the onset of submergence Chi Mei Optoelectronics' (CMO) 3Q08 loss was largely in-line with our estimates. While the 3Q08 was just the onset of its expected multi-quarters of loss making, the magnitude of the loss of TWD4.2b was already record-breaking (last most-comparable quarterly loss was TWD3.6b in 4Q04).

Record-high net loss of TWD4.2b was as result of sharp declines in shipments (-6% q-q) and ASP (-13% q-q), while its efforts to drive down overall COGS were diminutive. Our reasoning is that the scope of a further module product redesign to cut component counts is limited, and panel makers are also trying not to put excessive price pressure/overly stretch payment terms to component suppliers, as some of them are already in difficult financial situations and the risk of them going bust is on the rise. If any of these suppliers go bankrupt, panel makers could suffer from component supply tightness that would hamper their ability to fulfill panel orders. That said, we see some room of cost reduction in backlight units (BLU), as it is the largest single panel cost item (20-25% for TV panels, for example) and BLU makers such as Radiant Optoelectronics [6176 TT] and Coretronics [5371 TT] still enjoy decent profit margins.

Its net debt/equity ratio soared to 74% (2Q: 56%), as CMO drew down additional TWD63b of long-term debt ahead of the deadline for 'last drawdown' of the earlier signed syndicated loan.

Exhibit 1: 2Q08 Financial Gearing Ratios For Major TFT-LCD Panel Makers

(Local currency b)	AUO	CMO	Innolux	LG Display
Cash on hand	89.5	48.2	45.4	3,717.5
Debt	150.1	223.2	22.7	3,219.2
Net debt/(cash)	61.4	175.0	(22.8)	(498.4)
Shareholder Equity	326.9	236.5	98.2	9,895.9
<i>Net debt (cash) to Equity (%)</i>	19	74	(23)	(5)

Source: BNP Paribas estimates

Weighting from TV panels grew to 57% of sales (2Q08: 45%), while that from monitor panels fell to 28% (2Q: 42%) due to sharp shipment/ASP declines. Notebook panels stayed intact at 10% of sales. It is worth noting that TV panel sales also posted sequential 8% rise (Group: -14%) on Samsung order gains for 42"/46". We believe that 42"/46" weighting saw 6% q-q jump to 21% in CMO's TV panel volume mix in 3Q08.

Exhibit 2: 3Q08 Result Review

Year-end 31 Dec	Actual (TWD m)	BNPP est. (TWD m)	— Variance —	
			(%)	(TWD m)
Sales	81,988	82,030	0	(42)
Gross profit	2,451	2,460	0	(9)
<i>Margin (%)</i>	3.0	3.0		
Operating profit	(3,474)	(3,036)	14	(438)
<i>Margin (%)</i>	(4.2)	(3.7)		
Net profit	(4,187)	(4,393)	(5)	206
<i>Margin (%)</i>	(5.1)	(5.4)		
EPS (TWD)	(0.56)	(0.61)		

Sources: Chi Mei Optoelectronics; BNP Paribas estimates

Highly vulnerable to current long-lasting panel 'ice age' CMO guided 4Q08 fab utilization to fall to 60-70%, with large panel shipment to drop at low double-digit % q-q (TV: down 15% q-q, IT: down 10-15%). Blended ASP will fall 11-12% q-q and 5-10% for TV and IT panels, respectively. We see downside risks to this guidance. We expect its losses to widen rapidly in 4Q08-1Q09, with losses lasting till mid-2010, as continued panel price fall leads to more products below their respective cash cost levels. Our 2009-10 loss estimates are far more pessimistic than

consensus, and thus point to massive Street's earnings downgrade if our view is proven right.

Exhibit 3: Consensus Estimates At A Glance

Year-end 31 Dec (TWD b)	2009E		2010E	
	BNPP est	Consensus	BNPP est	Consensus
Sales	250.9	305.5	334.5	362.1
Net profit	(54.4)	(17.4)	(16.2)	8.6
EPS (TWD)	(7.40)	(2.36)	(2.19)	1.16

Sources: Thomson Financial; BNP Paribas estimates

2009-10 recently-reduced consensus remains too high

In the meanwhile, Korean panel makers will enjoy more superior cost structure amid KRW depreciation and decline in asset depreciation. We note that their cost advantage may become more visible, as Samsung/LG Display's (LGD) captive demand and earlier 8G fab-starts to offer them a better cost structure to compete in 32"/46"/47" panel markets. 40" panel prices would also fall sharply at end-2009 once Samsung's 7G fabs largely-depreciate by that time. In particular, we see LG Display's moves of: 1) ramping up a new 6G line in 2Q09 for wide-format monitor/notebook panel market, and 2) forming TV set assembly JVs with non tier-1 brands such as Vizio/Skyworth, as presenting risks to CMO's home turf. The reduced cost competitiveness has already resulted in CMO's loss in some orders/market share, as shown by its more-severe shipment/sales decline than that of its peers.

The risk of inventory write-down is also higher for CMO, whose 3Q08 inventory values or days inventories (TWD44b, 50 days) – surprisingly – showed no decline q-q and stayed flat. As most inventories are in the form of finished goods/work-in-progress (WIP), slow moving inventories will see their values fall in tandem with product selling prices (10-15% drop quarter-to-date). Inventory write-down amount of TWD4-5b is possible.

Cash preservation weakens >40" market readiness

2008 capex guidance stays intact at TWD100b. This implies 4Q capex at TWD17b, as TWD83b were already spent in 1Q-3Q08. CMO confirms our earlier view that there will be no change in its capacity ramp-up schedule for its maiden 8.5G fab (Phase 1: 30k sheets/month capacity by end-2009) in order to have a certain level of readiness for large-sized LCD TV market take-off. 8.5G is efficient for 46"/47" TV panel production with high glass utilization >90%, but running at 30k sheets/month 8G capacity may not give CMO the desired level of economies of scale/production efficiency.

In the meanwhile, and consistent with our beliefs, CMO has guided its preliminary 2009 capex to fall below TWD50b (i.e., >50% y-y decline), which will have an impact on its capacity builds going into 2010. Indeed, we see room for its 2009 capex to fall further, as it will take a while for CMO to fully digest the additional 30k sheets/month 8.5G capacity in 2009 (equivalent to 32": 6.5m units p.a. or 46"/47": 2.9m units). We model CMO's 2009-10 panel capacity area capacity y-y growth to be <20%, significantly below its 2002-08 CAGR of 69%. In the meantime, our checks also suggest that CMO's fully-owned LED chip subsidiary has put the pull-in of MOCVD equipment on hold.

2009 capex likely to fall more than guidance, readiness for >40" market take-off at risk

CMO will remain financially viable in 2009, but it will run at a fast rising gearing and stressed financials. While modeling 2009 negative free cash flow of TWD25b and approximately TWD34b of debts due next year (a portion being every green in nature), CMO still has TWD60b unused credit facilities on hand to cover the net cash outflow. However, if the downturn gets worse in 2010, CMO will need to seek additional external funding, especially its long-term debts will start maturing from 2010 onward.

Fully draw down TWD60b unused credit lines in 2009, financial in trouble if the downturn to worsen into 2010

Exhibit 4: Liquidity Position Analysis

Sources	(TWD m)	Uses	(TWD m)
Opening 2009 cash balance	17,483	Debt repayment	34,000
Cash flow from operations	14,809	Capex	40,000
		Target end 2009 cash balance	17,861
Total (a)	32,292	Total (b)	91,861
Cash inflow (outflow) = (a) - (b)	(59,569)		
Current unused credit facilities	60,000		

Unused credit facilities of TWD60b will be fully drawn down in 2009

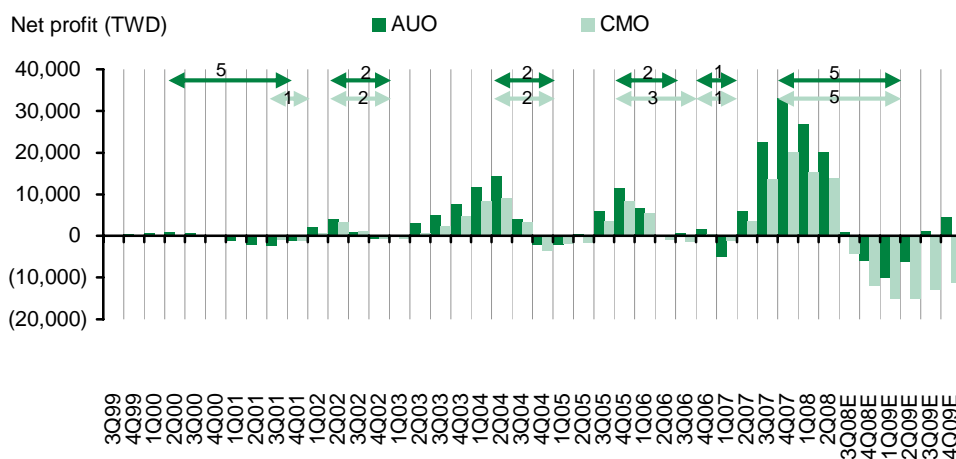
Source: BNP Paribas

REDUCE: CMO is a red flag signalling all market fears

While we have been cautious on the entire TFT-LCD sector, we formally downgrade CMO to REDUCE to convey our view that it will likely suffer most in this downturn. CMO appears to be at the epicenter of all market key concerns, with: 1) moderating growth in the outsourced panel market, 2) weakening cost competitiveness, 3) rising competition in the wide-format monitor/non-tier 1 TV spaces – where it is highly exposed – and, (4) high financial gearing.

The severity of this downturn (duration/magnitude) is unprecedented and makes the use of historical share price trading pattern irrelevant. CMO will likely record its maiden full-year net loss from 2009 after its 2002 public listing, and be loss-making for eight quarters till mid-2010 (previous losses lasted for two to three quarters). Further, the reported loss of TWD4.2b in 3Q08, which is just the beginning of this downturn, is already record-breaking. We set our end-2008 price target at TWD7.50, based on 0.3x 2008-09E P/BV, with reference to the current valuation of some players in other tech upstream sub-sectors (such as foundry/DRAM) struggling for survival. It is worth highlighting that CMO will see its book value shrink (and a sharp one) for the first time next year since its founding in 1998.

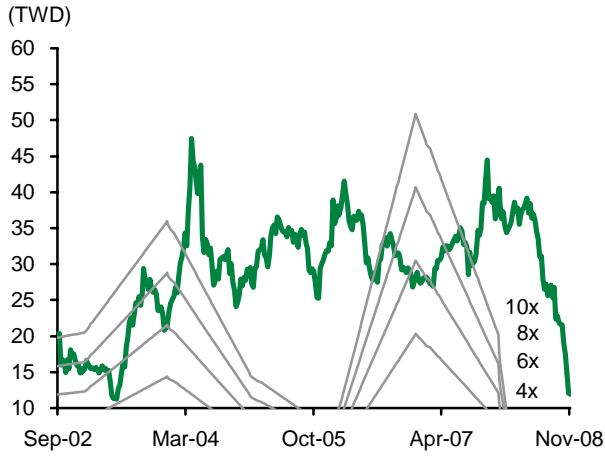
Exhibit 5: AUO/CMO – Quarterly Earnings Trends



Unprecedented severity, (duration and magnitude of loss) of the current downturn

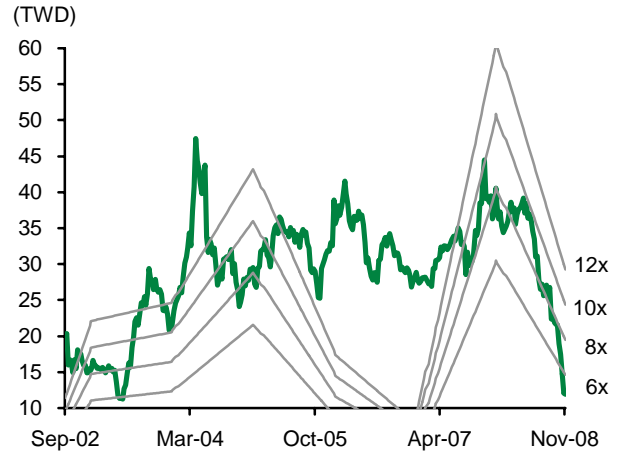
Note: Figures above the arrow lines illustrate duration of consecutive quarters with earnings deteriorating
Sources: Company; BNP Paribas estimates

Exhibit 6: 12-Month Forward P/E Band Chart



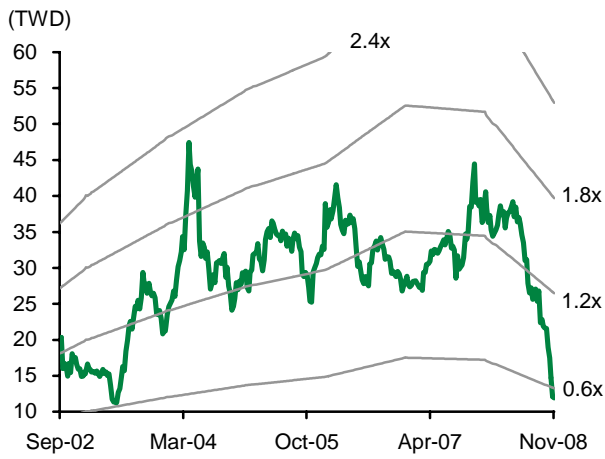
Source: BNP Paribas estimates

Exhibit 7: 12-Month Trailing P/E Band Chart



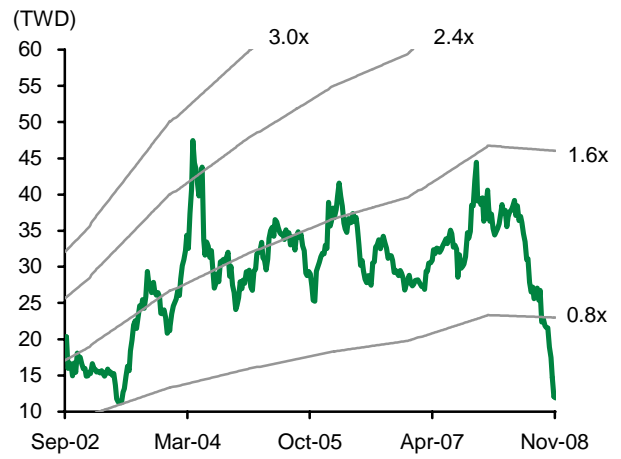
Source: BNP Paribas estimates

Exhibit 8: 12-Month Forward P/BV Band Chart



Source: BNP Paribas estimates

Exhibit 9: 12-Month Trailing P/BV Band Chart



Source: BNP Paribas estimates

Exhibit 10: Regional Valuation Table

		LGD	SEC	AUO	CMO
Bloomberg code		034220 KS	005930 KS	2409 TT	3009 TT
Local currency		KRW	KRW	TWD	TWD
Share price		20,100	474,000	20.15	9.96
Market cap (b)		6.0	60.9	5.6	2.4
P/E (x)	2006	neg	10.2	14.6	15.1
	2007	4.8	10.9	2.9	2.0
	2008E	4.1	12.4	4.5	5.7
	2009E	neg	12.5	neg	neg
	2010E	51.0	7.9	10.6	neg
P/BV (x)	2006	1.0	1.8	0.7	0.4
	2007	0.9	1.6	0.6	0.3
	2008E	0.7	1.4	0.5	0.3
	2009E	0.8	1.3	0.6	0.5
	2010E	0.8	1.2	0.6	0.5
EV/EBITDA (x)	2006	5.7	5.1	4.1	4.0
	2007	2.1	4.7	2.1	2.3
	2008E	1.5	4.8	2.1	2.9
	2009E	3.8	4.6	3.4	11.6
	2010E	2.5	3.4	2.3	4.4
EV/Sales (x)	2006	0.9	1.1	0.9	0.9
	2007	0.2	1.0	0.6	0.7
	2008E	0.4	0.8	0.6	0.7
	2009E	0.5	0.8	0.7	1.1
	2010E	0.5	0.8	0.7	0.9
EBITDA margin (%)	2006	15.9	21.2	22.9	22.1
	2007	29.9	20.3	30.2	30.5
	2008E	29.0	17.2	28.3	25.5
	2009E	13.4	17.2	21.9	9.5
	2010E	20.0	22.0	28.5	19.7
EBIT margin (%)	2006	(9.3)	11.8	4.9	4.3
	2007	10.5	9.4	13.2	14.6
	2008E	12.0	7.1	10.1	5.7
	2009E	(6.4)	6.8	(2.9)	(18.6)
	2010E	1.5	11.8	5.2	(2.3)
Net margin (%)	2006	(7.7)	13.5	3.1	2.2
	2007	9.2	12.0	11.8	11.8
	2008E	10.5	9.4	8.2	3.8
	2009E	(6.7)	9.0	(4.0)	(21.7)
	2010E	0.8	13.0	3.8	(4.8)
ROE (%)	2006	(10.8)	18.8	4.7	2.7
	2007	17.1	15.6	21.3	18.8
	2008E	18.8	12.5	12.1	6.1
	2009E	(10.6)	11.6	(5.1)	(30.3)
	2010E	1.4	16.6	5.5	(11.3)

Sources: Company data; BNP Paribas estimates

Exhibit 11: Earnings Model

Year-end 31 Dec (TWD m)	2008E				2009E				2007	2008E	2009E
	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE			
Revenue	93,312	96,875	81,988	58,797	52,287	57,501	67,364	73,754	301,911	330,973	250,906
COGS	(70,042)	(75,342)	(79,537)	(65,667)	(61,477)	(66,364)	(73,866)	(78,470)	(238,849)	(290,588)	(280,177)
Gross profit	23,270	21,533	2,451	(6,869)	(9,189)	(8,862)	(6,503)	(4,717)	63,063	40,385	(29,271)
Operating expense	(5,418)	(6,118)	(5,925)	(4,213)	(4,131)	(4,255)	(4,412)	(4,573)	(18,916)	(21,673)	(17,371)
EBIT	17,853	15,415	(3,474)	(11,082)	(13,320)	(13,117)	(10,915)	(9,289)	44,147	18,712	(46,642)
Net interest income	(1,494)	(1,347)	(1,400)	(1,407)	(1,776)	(1,829)	(1,885)	(1,869)	(5,298)	(5,647)	(7,358)
Net other income	(50)	476	107	0	26	29	34	37	(759)	533	125
Pre-tax profit	16,309	14,545	(4,767)	(12,488)	(15,070)	(14,918)	(12,766)	(11,122)	38,090	13,598	(53,875)
Tax	(887)	(725)	580	624	0	0	0	0	(1,891)	(407)	0
Net profit after extraord	15,311	13,709	(4,328)	(12,005)	(15,210)	(15,058)	(12,907)	(11,262)	35,745	12,688	(54,437)
EPS (TWD)	2.15	1.92	(0.60)	(1.64)	-2.08	(2.04)	(1.74)	(1.52)	5.09	1.76	(7.38)
Key drivers											
PC panel shipment (m)	11.0	13.7	11.6	9.9	8.9	9.2	10.4	10.6	34.1	46.2	39.1
TV panel shipment (m)	4.5	4.8	5.7	4.3	3.9	4.5	5.5	6.3	14.9	19.4	20.1
Large panel ASP (USD)	177	164	143	120	118	120	122	126	180	160	131
Margins (%)											
Gross margin	24.9	22.2	3.0	(11.7)	(17.6)	(15.4)	(9.7)	(6.4)	20.9	12.2	(11.7)
Operating margin	19.1	15.9	(4.2)	(18.8)	(25.5)	(22.8)	(16.2)	(12.6)	14.6	5.7	(18.6)
EBITDA margin	35.5	33.0	16.4	10.0	7.6	7.7	10.0	11.8	30.5	25.5	9.5
Net margin	16.4	14.2	(5.3)	(20.4)	(29.1)	(26.2)	(19.2)	(15.3)	11.8	3.8	(21.7)
Sequential growth (%)											
Revenue	(11.0)	3.8	(15.4)	(28.3)	(11.1)	10.0	17.2	9.5	61.4	9.6	(24.2)
Gross profit	(17.9)	(7.5)	(88.6)	(380.3)	33.8	(3.6)	(26.6)	(27.5)	191.5	(36.0)	(172.5)
EBIT	(22.4)	(13.7)	nm	nm	nm	nm	nm	nm	444.6	(57.6)	nm
Net profit	(23.7)	(10.5)	nm	nm	nm	nm	nm	nm	689.4	(64.5)	nm
EPS	(24.1)	(10.5)	nm	nm	nm	nm	nm	nm	584.7	(65.4)	nm

Sources: Chi Mei Optoelectronics; BNP Paribas estimates

FINANCIAL STATEMENTS

Chi Mei Optoelectronics

Profit and Loss (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Revenue	187,052	301,911	330,973	250,906	334,545
Cost of sales ex depreciation	(132,137)	(191,035)	(224,966)	(209,739)	(250,457)
Gross profit ex depreciation	54,915	110,877	106,006	41,167	84,088
Other operating income	-	-	432	-	-
Operating costs	(13,530)	(18,916)	(22,105)	(17,371)	(18,179)
Operating EBITDA	41,385	91,961	84,333	23,796	65,908
Depreciation	(33,279)	(47,814)	(65,621)	(70,438)	(73,708)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	8,106	44,147	18,712	(46,642)	(7,800)
Net financing costs	(2,987)	(5,298)	(5,647)	(7,354)	(7,722)
Associates	(814)	(578)	427	-	-
Recurring non operating income	226	(181)	106	125	335
Non recurring items	-	-	-	-	-
Profit before tax	4,531	38,090	13,598	(53,871)	(15,187)
Tax	(3)	(1,891)	(407)	-	(411)
Profit after tax	4,528	36,199	13,191	(53,871)	(15,598)
Minority interests	-	-	-	-	-
Preferred dividends	(498)	(454)	(503)	(563)	(563)
Other items	-	-	-	-	-
Reported net profit	4,030	35,745	12,688	(54,433)	(16,160)
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	4,030	35,745	12,688	(54,433)	(16,160)
Per share (TWD)					
Recurring EPS *	0.66	5.09	1.76	(7.40)	(2.19)
Reported EPS	0.66	5.09	1.76	(7.40)	(2.19)
DPS	0.29	0.16	1.59	0.11	-
Growth					
Revenue (%)	22.4	61.4	9.6	(24.2)	33.3
Operating EBITDA (%)	27.1	122.2	(8.3)	(71.8)	177.0
Operating EBIT (%)	(21.2)	444.6	(57.6)	neg	neg
Recurring EPS (%)	(54.9)	669.3	(65.4)	neg	neg
Reported EPS (%)	(54.9)	669.3	(65.4)	neg	neg
Operating performance					
Gross margin inc depreciation (%)	11.6	20.9	12.2	(11.7)	3.1
Operating EBITDA margin (%)	22.1	30.5	25.5	9.5	19.7
Operating EBIT margin (%)	4.3	14.6	5.7	(18.6)	(2.3)
Net margin (%)	2.2	11.8	3.8	(21.7)	(4.8)
Effective tax rate (%)	0.1	5.0	3.0	neg	neg
Dividend payout on recurring profit (%)	44.6	3.2	90.5	neg	neg
Interest cover (x)	2.5	8.2	3.4	(6.3)	(1.0)
Inventory days	53.3	53.3	46.9	47.7	49.6
Debtor days	61.4	52.2	48.9	49.7	49.1
Creditor days	90.2	103.7	102.8	106.5	103.6
Operating ROIC (%)	5.8	21.3	6.5	(15.6)	(2.8)
Operating ROIC - WACC (%)	(0.2)	15.3	0.4	(21.7)	(8.9)
ROIC (%)	3.0	13.1	5.0	(12.1)	(2.1)
ROIC - WACC (%)	(3.1)	7.1	(1.0)	(18.1)	(8.1)
ROE (%)	2.7	18.8	6.1	(30.3)	(11.3)
ROA (%)	2.2	9.1	3.7	(9.4)	(1.6)

Negative operating leverage effect is expected to linger in 2009, and make its losses balloon till 1Q09

* Pre exceptional, pre-goodwill and fully diluted

Revenue By Division (TWD m)	2006A	2007A	2008E	2009E	2010E
TV	84,980	141,240			
Monitor	75,324	115,318			
Notebook	21,610	33,025			
General Display & Others	5,139	12,170			
Others		158	330,973	250,906	334,545

Sources: Chi Mei Optoelectronics; BNP Paribas estimates

Cash Flow (TWD m)					
Year Ending December	2006A	2007A	2008E	2009E	2010E
Recurring net profit	4,030	35,745	12,688	(54,433)	(16,160)
Depreciation	33,279	47,814	65,621	70,438	73,708
Associates & minorities	-	-	-	-	-
Other non-cash items	-	-	-	-	-
Recurring cash flow	37,310	83,560	78,309	16,005	57,548
Change in working capital	24,670	(2,274)	14,671	(1,755)	(7,391)
Capex - maintenance	(127,532)	(125,618)	(112,271)	(40,000)	(45,534)
Capex - new investment	-	-	-	-	-
Free cash flow to equity	(65,551)	(44,332)	(19,291)	(25,751)	4,622
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	(2,055)	(1,146)	(11,652)	(784)	-
Non recurring cash flows	(15,205)	6,631	(1,821)	-	-
Net cash flow	(82,811)	(38,848)	(32,764)	(26,535)	4,622
Equity finance	45,658	3,661	8,537	(1,868)	-
Debt finance	66,810	15,787	10,761	29,152	5,052
Movement in cash	29,656	(19,399)	(13,465)	749	9,675

Per share (TWD)

Recurring cash flow per share	6.12	11.89	10.87	2.17	7.79
FCF to equity per share	(10.75)	(6.31)	(2.68)	(3.50)	0.63

Balance Sheet (TWD m)

Year Ending December	2006A	2007A	2008E	2009E	2010E
Working capital assets	57,638	97,531	62,779	74,849	101,933
Working capital liabilities	(67,927)	(105,546)	(85,464)	(95,779)	(115,472)
Net working capital	(10,289)	(8,015)	(22,686)	(20,930)	(13,539)
Tangible fixed assets	160,451	272,022	336,107	305,669	277,495
Operating invested capital	150,162	264,007	313,421	284,739	263,956
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	17,546	12,422	15,820	15,820	15,820
Other assets	126,437	89,512	70,658	70,658	70,658
Invested capital	294,145	365,941	399,899	371,217	350,434
Cash & equivalents	(50,347)	(30,948)	(17,483)	(18,232)	(27,906)
Short term debt	20,313	32,610	41,617	37,122	35,043
Long term debt *	134,073	140,971	151,962	185,609	192,739
Net debt	104,039	142,632	176,095	204,498	199,876
Deferred tax	-	-	-	-	-
Other liabilities	1,824	173	332	332	332
Total equity	188,283	223,135	223,472	166,387	150,227
Minority interests	-	-	-	-	-
Invested capital	294,145	365,941	399,899	371,217	350,434

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

Per share (TWD)

Book value per share	24.75	29.21	28.53	20.50	18.31
Tangible book value per share	24.75	29.21	28.53	20.50	18.31

Financial strength

Net debt/equity (%)	55.3	63.9	78.8	122.9	133.0
Net debt/total assets (%)	25.2	28.4	35.0	42.1	40.5
Current ratio (x)	1.2	0.9	0.6	0.7	0.9
CF interest cover (x)	(20.9)	(7.4)	(2.4)	(2.5)	1.6

Valuation	2006A	2007A	2008E	2009E	2010E
Recurring P/E (x) *	15.1	2.0	5.7	neg	neg
Recurring P/E @ target price (x) *	11.3	1.5	4.3	neg	neg
Reported P/E (x)	15.1	2.0	5.7	neg	neg
Dividend yield (%)	3.0	1.6	16.0	1.1	-
P/CF (x)	1.6	0.8	0.9	4.6	1.3
P/FCF (x)	neg	neg	neg	neg	15.9
Price/book (x)	0.4	0.3	0.3	0.5	0.5
Price/tangible book (x)	0.4	0.3	0.3	0.5	0.5
EV/EBITDA (x) **	4.0	2.3	2.9	11.6	4.4
EV/EBITDA @ target price (x) **	3.6	2.1	2.7	10.9	4.1
EV/invested capital (x)	0.6	0.6	0.7	0.8	0.8

* Pre exceptional, pre-goodwill and fully diluted

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

Expect a drop (severe) in BVPS in 2009 – the first time since CMO's founding in 1998

Expect gearing ratio to rise rapidly, given CMO's expected net cash outflow in 2009-10

Sources: Chi Mei Optoelectronics; BNP Paribas estimates

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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.

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