



COMPANY UPDATE  
**D-Link Corp. (2332.TW)**

Neutral

**3Q in line; but macro headwind remains on its retail exposure**

**What's changed**

D-Link reported 3Q08 GAAP EPS of NT\$0.81 which is in line with our forecast of NT\$0.79. Despite 3Q GM of 32.7% being lower than our estimate by 1pp, D-Link still managed to deliver operating profit of NT\$546mn, beating our estimate by 20%, due to its better opex control. The high level of operating profit was offset by the higher than expected tax expense. Non operating profit was in line with our estimate as investment income from Alpha Networks (3380.TW, NC) mitigated the FX loss impact in 3Q. Guidance for 4Q08: sales down by high single digit qoq (vs. GSe -8% qoq). Operating margin range from 5.0-5.5% (vs. GSe 5.3%).

**Implications**

We believe weak macro conditions will bring more ASP and margin erosion to the networking companies and the magnitude of the economic slowdown in Western Europe and US is likely more severe than we originally expected. It is inevitable for D-Link to suffer from sluggish retail demand when the company has high exposure (~50% from WLAN & Digital Home). We cut our 08E-10E GAAP EPS by 1%-48% to factor in weaker than expected consumer demand and derive our new 12-m TP of NT\$27 (from NT\$36) after rolling over our 1XPEG base to 08-11. We maintain Neutral rating and remain positive on D-Link's global channel franchise and high emerging market exposure (~60% in 3Q08). However, we suggest investors stay on the sidelines until positive catalysts emerge.

**Valuation**

We think D-Link's low valuation (trading at historical trough of 7X 09E EPS) and healthy B/S (3Q08 cash as 36% of 10/28 market cap) could limit the downside for its share price.

**Key risks**

Intensified pricing competition from global peers.

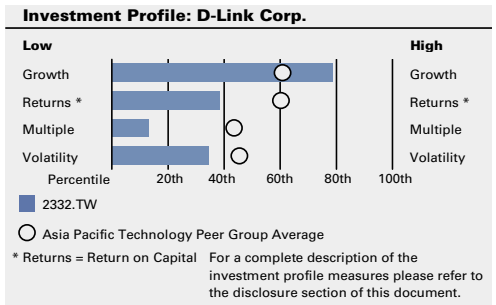
**INVESTMENT LIST MEMBERSHIP**

Neutral

**Coverage View: Neutral**

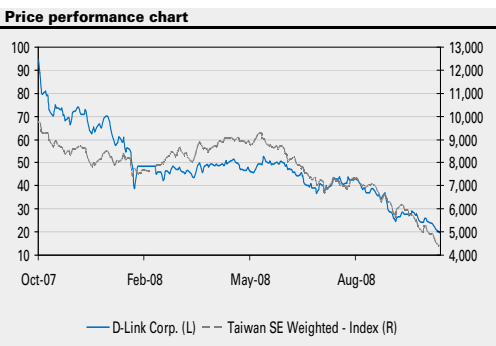
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Key data	Current
Price (NT\$)	19.60
12 month price target (NT\$)	27.00
Market cap (NT\$ mn / US\$ mn)	11,041.0 / 329.5
Foreign ownership (%)	24.5

	12/07	12/08E	12/09E	12/10E
EPS (NT\$) New	5.72	2.91	2.65	3.40
EPS revision (%)	0.0	(0.7)	(40.2)	(48.1)
EPS growth (%)	23.3	(49.1)	(9.1)	28.4
EPS (dil) (NT\$) New	5.72	2.91	2.65	3.40
P/E (X)	3.4	6.7	7.4	5.8
P/B (X)	0.7	0.8	0.7	0.7
EV/EBITDA (X)	15.5	3.1	3.1	1.7
Dividend yield (%)	13.3	12.4	7.0	6.6
ROE (%)	22.1	11.1	10.1	12.1



Share price performance (%)	3 month	6 month	12 month
Absolute	(54.2)	(60.3)	(78.4)
Rel. to Taiwan SE Weighted Index	(24.7)	(18.1)	(52.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 10/28/2008 close.

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**Exhibit 1: D-Link 3Q result was in line with our expectation**

D-Link Corp (2332.TW) Summary P&L (NT\$m)	3Q2008 (GAAP)			3Q2008 (non-GAAP)			2Q2008 (QoQ)		3Q2007 (YoY)	
	Actual	GS est.	Diff.	Actual	GS est.	Diff.	Actual	%	Actual	%
Revenues	8,628	8,874	-3%	8,628	8,874	-3%	8,507	1%	8,998	-4%
Gross profits	2,820	2,987	-6%	2,820	2,987	-6%	2,852	-1%	3,148	-10%
Operating profits	546	454	20%	602	502	20%	387	56%	686	-12%
Non-operating income	76	61	24%	76	61	24%	38	100%	274	-72%
Pretax earnings	622	515	21%	678	564	20%	425	59%	960	-29%
Net earnings	459	443	3%	500	485	3%	368	36%	800	-38%
EPS (NT\$)	0.81	0.79	3%	0.89	0.86	3%	0.65	36%	1.37	-35%
<b>Ratio analysis</b>										
Gross margin (%)	32.7%	33.7%		32.7%	33.7%		33.5%		35.0%	
EBIT margin (%)	6.3%	5.1%		7.0%	5.7%		4.5%		7.6%	
Tax and minorities (as % of EBT)	26.2%	14.0%		26.2%	14.0%		13.3%		16.7%	
Net margin (%)	5.3%	5.0%		5.8%	5.5%		4.3%		8.9%	
<b>Return analysis</b>										
ROA (% annualized)	7.0%	7.2%		7.6%	7.9%		6.0%		11.5%	
ROE (% annualized)	13.4%	13.6%		14.7%	14.9%		10.3%		19.6%	

Source: Goldman Sachs Research estimates.

**Exhibit 2: We cut our 08E-10E GAAP EPS by 1%-48% to factor in weaker than expected consumer demand**

Top: Non-GAAP Bottom: GAAP

D-Link Corp (2332.TW)									
P&L (non-GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2010E New	2010E Old	Diff.
Revenues	33,562	34,724	-3%	33,425	39,737	-16%	38,988	46,694	-17%
Gross profits	11,081	11,675	-5%	10,730	13,371	-20%	12,537	15,617	-20%
Operating profits	1,978	1,921	3%	1,549	2,946	-47%	2,069	4,526	-54%
Non-operating income	196	174	13%	401	324	24%	547	510	7%
Pretax earnings	2,174	2,095	4%	1,950	3,270	-40%	2,616	5,036	-48%
Net earnings	1,786	1,801	-1%	1,626	2,718	-40%	2,080	4,008	-48%
EPS (NT\$)	3.17	3.20	-1%	2.89	4.82	-40%	3.69	7.12	-48%
<b>Ratio analysis</b>									
Gross margin (%)	33.0%	33.6%		32.1%	33.6%		32.2%	33.4%	
EBIT margin (%)	5.9%	5.5%		4.6%	7.4%		5.3%	9.7%	
Tax and minorities (as % of EBT)	17.9%	14.0%		16.6%	16.9%		20.5%	20.4%	
Net margin (%)	5.3%	5.2%		4.9%	6.8%		5.3%	8.6%	
<b>Return analysis</b>									
ROA (% annualized)	6.9%	6.9%		6.2%	10.0%		7.0%	12.4%	
ROE (% annualized)	12.0%	12.7%		11.0%	19.3%		13.2%	24.5%	

D-Link Corp (2332.TW)									
P&L (GAAP, NT\$m)	2008E New	2008E Old	Diff.	2009E New	2009E Old	Diff.	2010E New	2010E Old	Diff.
Revenues	33,562	34,724	-3%	33,425	39,737	-16%	38,988	46,694	-17%
Gross profits	11,081	11,675	-5%	10,730	13,371	-20%	12,537	15,617	-20%
Operating profits	1,800	1,748	3%	1,387	2,674	-48%	1,861	4,125	-55%
Non-operating income	196	174	13%	401	324	24%	547	510	7%
Pretax earnings	1,997	1,922	4%	1,788	2,998	-40%	2,408	4,635	-48%
Net earnings	1,640	1,652	-1%	1,490	2,492	-40%	1,914	3,689	-48%
EPS (NT\$)	2.91	2.93	-1%	2.65	4.42	-40%	3.40	6.55	-48%
<b>Ratio analysis</b>									
Gross margin (%)	33.0%	33.6%		32.1%	33.6%		32.2%	33.4%	
EBIT margin (%)	5.4%	5.0%		4.1%	6.7%		4.8%	8.8%	
Tax and minorities (as % of EBT)	17.9%	14.0%		16.6%	16.9%		20.5%	20.4%	
Net margin (%)	4.9%	4.8%		4.5%	6.3%		4.9%	7.9%	
<b>Return analysis</b>									
ROA (% annualized)	6.3%	6.4%		5.7%	9.2%		6.5%	11.4%	
ROE (% annualized)	11.1%	11.6%		10.1%	17.7%		12.1%	22.5%	

Source: Goldman Sachs Research estimates.

**Exhibit 3: D-Link's quarterly profit model (brand consolidated; NT\$m)**

Non-GAAP basis

Summary P&L (non-GAAP)	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008E	1Q2009E	2Q2009E	2007	2008E	2009E	2010E	2011E
<b>Net sales</b>	<b>8,998</b>	<b>8,886</b>	<b>8,493</b>	<b>8,507</b>	<b>8,628</b>	<b>7,935</b>	<b>7,451</b>	<b>7,777</b>	<b>33,230</b>	<b>33,562</b>	<b>33,425</b>	<b>38,988</b>	<b>43,570</b>
Cost of goods sold (COGS)	(5,850)	(5,989)	(5,629)	(5,655)	(5,808)	(5,390)	(5,056)	(5,296)	(21,845)	(22,481)	(22,695)	(26,451)	(29,584)
<b>Gross profits</b>	<b>3,148</b>	<b>2,897</b>	<b>2,864</b>	<b>2,852</b>	<b>2,820</b>	<b>2,545</b>	<b>2,395</b>	<b>2,481</b>	<b>11,385</b>	<b>11,081</b>	<b>10,730</b>	<b>12,537</b>	<b>13,986</b>
Operating expenses	(2,462)	(2,472)	(2,348)	(2,465)	(2,218)	(2,071)	(2,006)	(2,135)	(9,081)	(9,103)	(9,180)	(10,468)	(11,704)
SG&A	(2,310)	(2,236)	(2,201)	(2,281)	(2,088)	(1,944)	(1,880)	(2,002)	(8,390)	(8,514)	(8,613)	(9,836)	(10,827)
R&D	(152)	(236)	(147)	(185)	(130)	(127)	(125)	(133)	(691)	(589)	(567)	(632)	(876)
<b>Operating profits</b>	<b>686</b>	<b>425</b>	<b>516</b>	<b>387</b>	<b>602</b>	<b>474</b>	<b>390</b>	<b>346</b>	<b>2,304</b>	<b>1,978</b>	<b>1,549</b>	<b>2,069</b>	<b>2,282</b>
Non-operating income/(losses)	274	296	(49)	38	76	131	93	104	1,268	196	401	547	752
<b>Earnings before tax (EBT)</b>	<b>960</b>	<b>721</b>	<b>467</b>	<b>425</b>	<b>678</b>	<b>604</b>	<b>483</b>	<b>450</b>	<b>3,572</b>	<b>2,174</b>	<b>1,950</b>	<b>2,616</b>	<b>3,035</b>
Income tax credit/(expense)	(156)	(134)	(65)	(56)	(178)	(88)	(74)	(73)	(233)	(388)	(324)	(536)	(742)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest	(4)	23	0	(0)	0	(0)	(0)	(0)	(0)	0	(1)	(1)	(1)
<b>Earnings after tax (EAT)</b>	<b>800</b>	<b>610</b>	<b>402</b>	<b>368</b>	<b>500</b>	<b>516</b>	<b>409</b>	<b>377</b>	<b>3,339</b>	<b>1,786</b>	<b>1,626</b>	<b>2,080</b>	<b>2,292</b>
<b>EPS (NT\$)</b>	<b>1.37</b>	<b>1.04</b>	<b>0.71</b>	<b>0.65</b>	<b>0.89</b>	<b>0.92</b>	<b>0.73</b>	<b>0.67</b>	<b>5.72</b>	<b>3.17</b>	<b>2.89</b>	<b>3.69</b>	<b>4.07</b>
<b>EPS (fully diluted, NT\$)</b>	<b>1.37</b>	<b>1.04</b>	<b>0.71</b>	<b>0.65</b>	<b>0.89</b>	<b>0.92</b>	<b>0.73</b>	<b>0.67</b>	<b>5.72</b>	<b>3.17</b>	<b>2.89</b>	<b>3.69</b>	<b>4.07</b>
<b>Ratio analysis and assumptions</b>													
<b>As % of sales</b>													
Gross margin	35.0%	32.6%	33.7%	33.5%	32.7%	32.1%	32.1%	31.9%	34.3%	33.0%	32.1%	32.2%	32.1%
Operating expense	-27.4%	-27.8%	-27.7%	-29.0%	-25.7%	-26.1%	-26.9%	-27.5%	-27.3%	-27.1%	-27.5%	-26.8%	-26.9%
Operating margin	7.6%	4.8%	6.1%	4.5%	7.0%	6.0%	5.2%	4.5%	6.9%	5.9%	4.6%	5.3%	5.2%
Pretax margin	10.7%	8.1%	5.5%	5.0%	7.9%	7.6%	6.5%	5.8%	10.7%	6.5%	5.8%	6.7%	7.0%
Tax rate (as % of EBT)	16.2%	18.6%	14.0%	13.3%	26.3%	14.6%	15.4%	16.1%	6.5%	17.9%	16.6%	20.5%	24.5%
Net margin	8.9%	6.9%	4.7%	4.3%	5.8%	6.5%	5.5%	4.8%	10.0%	5.3%	4.9%	5.3%	5.3%
<b>Qoq growth (%)</b>													
Sales	14.9%	-1.2%	-4.4%	0.2%	1.4%	-8.0%	-6.1%	4.4%					
Gross profits	15.9%	-8.0%	-1.1%	-0.4%	-1.1%	-9.8%	-5.9%	3.6%					
Operating profits	14.9%	-38.1%	21.4%	-25.0%	55.5%	-21.2%	-17.7%	-11.2%					
Non-operating profits	251.3%	8.0%	NM	NM	99.7%	71.4%	-28.7%	11.2%					
Pre-tax profits	42.2%	-24.9%	-35.2%	-9.0%	59.5%	-10.8%	-20.1%	-6.9%					
Net profits	3.9%	-23.8%	-34.1%	-8.3%	35.7%	3.2%	-20.8%	-7.7%					
EPS (weighted averaged)	3.9%	-23.8%	-31.6%	-8.4%	35.7%	3.2%	-20.8%	-7.7%					
<b>Yoq growth (%)</b>													
Sales	13.4%	8.7%	13.0%	8.6%	-4.1%	-10.7%	-12.3%	-8.6%	11.4%	1.0%	-0.4%	16.6%	11.8%
Gross profits	22.0%	-4.9%	9.1%	5.0%	-10.4%	-12.1%	-16.4%	-13.0%	13.2%	-2.7%	-3.2%	16.8%	11.6%
Operating profits	17.6%	-55.5%	-13.4%	-35.2%	-12.3%	11.6%	-24.4%	-10.5%	0.2%	-14.1%	-21.7%	33.5%	10.3%
Non-operating profits	-0.4%	622.0%	NM	-51.1%	-72.2%	-55.9%	NM	171.4%	75.5%	-84.5%	104.3%	36.3%	37.6%
Pretax profits	11.8%	-27.6%	-61.6%	-37.1%	-29.4%	-16.1%	3.4%	5.8%	18.2%	-39.1%	-10.3%	34.1%	16.0%
Net profits	12.1%	-25.6%	-65.3%	-52.2%	-37.5%	-15.4%	1.6%	2.3%	32.5%	-46.5%	-9.0%	27.9%	10.2%
EPS	11.6%	-25.9%	-64.0%	-50.4%	-35.2%	-12.3%	1.6%	2.3%	31.8%	-44.5%	-9.0%	27.9%	10.2%
<b>Dividend policies</b>													
Cash dividends (NT\$ per share)									2.6	2.4	1.4	1.3	1.7
Payout ratio (%)									60.5%	41.0%	43.0%	45.0%	47.0%

Source: Goldman Sachs Research estimates.

**Exhibit 4: D-Link's quarterly profit model (brand consolidated; NT\$m)**

GAAP basis

Summary P&L (GAAP)	3Q2007	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008E	1Q2009E	2Q2009E	2007	2008E	2009E	2010E	2011E
<b>Net sales</b>	<b>8,998</b>	<b>8,886</b>	<b>8,493</b>	<b>8,507</b>	<b>8,628</b>	<b>7,935</b>	<b>7,451</b>	<b>7,777</b>	<b>33,230</b>	<b>33,562</b>	<b>33,425</b>	<b>38,988</b>	<b>43,570</b>
Cost of goods sold (COGS)	(5,850)	(5,989)	(5,629)	(5,655)	(5,808)	(5,390)	(5,056)	(5,296)	(21,845)	(22,481)	(22,695)	(26,451)	(29,584)
<b>Gross profits</b>	<b>3,148</b>	<b>2,897</b>	<b>2,864</b>	<b>2,852</b>	<b>2,820</b>	<b>2,545</b>	<b>2,395</b>	<b>2,481</b>	<b>11,385</b>	<b>11,081</b>	<b>10,730</b>	<b>12,537</b>	<b>13,986</b>
Operating expenses	(2,542)	(2,533)	(2,384)	(2,499)	(2,274)	(2,123)	(2,046)	(2,173)	(9,415)	(9,281)	(9,343)	(10,676)	(11,933)
SG&A	(2,346)	(2,263)	(2,218)	(2,296)	(2,113)	(1,967)	(1,899)	(2,019)	(8,539)	(8,594)	(8,686)	(9,929)	(10,930)
R&D	(196)	(270)	(167)	(203)	(161)	(156)	(148)	(154)	(876)	(687)	(657)	(747)	(1,003)
<b>Operating profits</b>	<b>606</b>	<b>364</b>	<b>479</b>	<b>353</b>	<b>546</b>	<b>422</b>	<b>349</b>	<b>309</b>	<b>1,970</b>	<b>1,800</b>	<b>1,387</b>	<b>1,861</b>	<b>2,053</b>
Non-operating income/(losses)	274	296	(49)	38	76	131	93	104	1,268	196	401	547	752
<b>Earnings before tax (EBT)</b>	<b>880</b>	<b>660</b>	<b>431</b>	<b>391</b>	<b>622</b>	<b>553</b>	<b>442</b>	<b>412</b>	<b>3,238</b>	<b>1,997</b>	<b>1,788</b>	<b>2,408</b>	<b>2,806</b>
Income tax credit/(expense)	(143)	(123)	(60)	(52)	(163)	(81)	(68)	(67)	(216)	(357)	(297)	(493)	(686)
Extraordinary gain/(loss)	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority interest	(4)	23	0	(0)	0	(0)	(0)	(0)	(0)	0	(1)	(1)	(1)
<b>Earnings after tax (EAT)</b>	<b>733</b>	<b>560</b>	<b>371</b>	<b>339</b>	<b>459</b>	<b>472</b>	<b>374</b>	<b>345</b>	<b>3,022</b>	<b>1,640</b>	<b>1,490</b>	<b>1,914</b>	<b>2,118</b>
<b>EPS (GAAP, NT\$)</b>	<b>1.26</b>	<b>0.96</b>	<b>0.66</b>	<b>0.60</b>	<b>0.81</b>	<b>0.84</b>	<b>0.66</b>	<b>0.61</b>	<b>5.17</b>	<b>2.91</b>	<b>2.65</b>	<b>3.40</b>	<b>3.76</b>
<b>EPS (GAAP, fully diluted, NT\$)</b>	<b>1.26</b>	<b>0.96</b>	<b>0.66</b>	<b>0.60</b>	<b>0.81</b>	<b>0.84</b>	<b>0.66</b>	<b>0.61</b>	<b>5.17</b>	<b>2.91</b>	<b>2.65</b>	<b>3.40</b>	<b>3.76</b>
<b>Ratio analysis and assumptions</b>													
<b>As % of sales</b>													
Gross margin	35.0%	32.6%	33.7%	33.5%	32.7%	32.1%	32.1%	31.9%	34.3%	33.0%	32.1%	32.2%	32.1%
Operating expense	-28.3%	-28.5%	-28.1%	-29.4%	-26.4%	-26.7%	-27.5%	-27.9%	-28.3%	-27.7%	-28.0%	-27.4%	-27.4%
Operating margin	6.7%	4.1%	5.6%	4.1%	6.3%	5.3%	4.7%	4.0%	5.9%	5.4%	4.1%	4.8%	4.7%
Pretax margin	9.8%	7.4%	5.1%	4.6%	7.2%	7.0%	5.9%	5.3%	9.7%	5.9%	5.3%	6.2%	6.4%
Tax rate (as % of EBT)	16.2%	18.6%	14.0%	13.3%	26.3%	14.6%	15.4%	16.1%	6.7%	17.9%	16.6%	20.5%	24.5%
Net margin	8.1%	6.3%	4.4%	4.0%	5.3%	5.9%	5.0%	4.4%	9.1%	4.9%	4.5%	4.9%	4.9%
<b>Qoq growth (%)</b>													
Sales	14.9%	-1.2%	-4.4%	0.2%	1.4%	-8.0%	-6.1%	4.4%					
Gross profits	15.9%	-8.0%	-1.1%	-0.4%	-1.1%	-9.8%	-5.9%	3.6%					
Operating profits	16.5%	-40.0%	31.8%	-26.4%	54.6%	-22.6%	-17.4%	-11.6%					
Non-operating profits	251.3%	8.0%	NM	NM	99.7%	71.4%	-28.7%	11.2%					
Pre-tax profits	47.1%	-25.1%	-34.7%	-9.2%	59.0%	-11.1%	-20.0%	-6.8%					
Net profits	7.6%	-23.6%	-33.8%	-8.6%	35.3%	2.9%	-20.7%	-7.6%					
EPS (weighted averaged)	7.6%	-23.6%	-31.3%	-8.6%	35.3%	2.9%	-20.7%	-7.6%					
<b>Yoy growth (%)</b>													
Sales	13.4%	8.7%	13.0%	8.6%	-4.1%	-10.7%	-12.3%	-8.6%	11.4%	1.0%	-0.4%	16.6%	11.8%
Gross profits	22.0%	-4.9%	9.1%	5.0%	-10.4%	-12.1%	-16.4%	-13.0%	13.2%	-2.7%	-3.2%	16.8%	11.6%
Operating profits	46.0%	-52.2%	0.0%	-32.2%	-10.0%	16.1%	-27.2%	-12.6%	15.6%	-8.6%	-23.0%	34.2%	10.3%
Non-operating profits	-0.4%	622.0%	NM	-51.1%	-72.2%	-55.9%	NM	171.4%	75.5%	-84.5%	104.3%	36.3%	37.6%
Pretax profits	27.5%	-17.8%	-60.8%	-34.7%	-29.4%	-16.2%	2.6%	5.4%	33.4%	-38.3%	-10.5%	34.7%	16.5%
Net profits	28.5%	-15.1%	-64.6%	-50.3%	-37.5%	-15.8%	0.8%	1.9%	49.8%	-45.7%	-9.1%	28.4%	10.7%
EPS	28.0%	-15.5%	-63.2%	-48.4%	-35.1%	-12.7%	0.8%	1.9%	49.1%	-43.7%	-9.1%	28.4%	10.7%
<b>Dividend policies</b>													
Cash dividends (NT\$ per share)									2.6	2.4	1.4	1.3	1.7
Payout ratio (%)									60.5%	41.0%	43.0%	45.0%	47.0%

Source: Goldman Sachs Research estimates.

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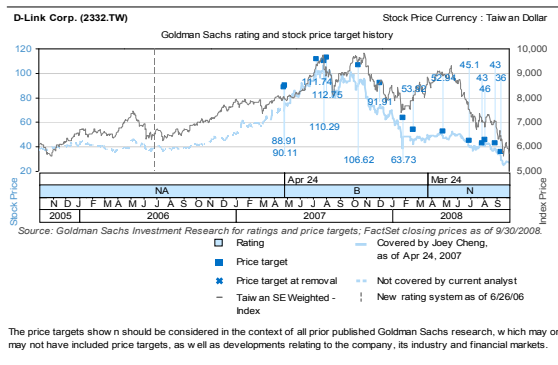
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