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Stock Rating
Overweight

Industry View
In-Line

Gemtek Technology

Better Positioning Amid the Downturn

What's Changed

Price Target	NT\$75.00 to NT\$41.50
09/10 Net Income	down 25% / 26%

A preferred name: Despite the market's low risk appetite for small-cap names on greater share price volatility, we believe Gemtek will survive better through the down cycle thanks to its ongoing product/ client diversification efforts, which will help reduce the impact of a consumer spending slowdown, and its healthy balance sheet. Thus, we rank Gemtek as our preferred play in TW networking space and retain our OW rating.

Where we differ? While we are positive on Gemtek's favorable move into the niche telco/carrier segment, we are also mindful of the effects of a retailer networking slowdown. Thus, we slashed our 2009-10E earnings by 25-26% to reflect the inevitable decline in retail AP/ router projects and the impact of operating deleveraging. Our new estimates are 20-23% lower than consensus and imply a 16% YoY earnings decline in 2009.

What does the share price imply now? After the sharp 30%+ sell-off since October, Gemtek trades at 7.6x our revised 2009E EPS, and 1x P/BV with an 12% cash dividend yield. The solid balance sheet with net cash position (gearing at -14%) and ample cash and unused credit line should enable Gemtek to better weather the downturn. The current share price suggests 34% upside to our fair value of NT\$41.50, which has been discounted for greater beta per small cap nature.

Favorable IP TV and WiMAX developments in long run: With a five-year CAGR of 50% for IP TV service proliferation in 2007-12E, a broad range of WiMAX deployment in emerging markets, and initial Xohm service rollouts in the US, we believe Gemtek's revenue momentum should continue to be fueled by increasing order wins and enlarged scale merits. The potential top-tier carrier/ISP penetration for IP STB projects should act as a new growth catalyst in 2009.

Key Ratios and Statistics

Reuters: 4906.TW Bloomberg: 4906 TT

Taiwan Networking Equipment

Price target	NT\$41.50
Shr price, close (Nov 20, 2008)	NT\$30.90
Mkt cap, curr (mn)	US\$219
52-Week Range	NT\$75.40-29.00
Sh out, basic, curr (mn)	241.2
EV, curr (mn)	NT\$4,976
Net debt/cap (12/08e) (%)	(26.0)
ROE (12/08e) (%)	16.0
S'hldr eqty (12/08e) (mn)	NT\$8,281

Fiscal Year ending	12/07	12/08e	12/09e	12/10e
ModelWare EPS (NT\$)	2.82	4.78	4.06	4.51
Prior ModelWare EPS (NT\$)	-	4.83	5.37	6.05
EPS, basic (NT\$)	4.28	5.46	4.61	5.12
Prior EPS (NT\$)	-	5.55	6.12	6.89
Revenue, net (NT\$ mn)	17,492	21,141	21,079	24,464
ModelWare net inc (NT\$ mn)	664	1,223	1,039	1,156
P/E	19.3	6.5	7.6	6.8
P/E, basic	12.7	5.7	6.7	6.0
P/BV	2.0	1.0	1.0	1.0
EV/EBITDA	12.4	3.2	3.0	2.7
Div yld (%)	4.7	9.8	12.4	10.5

e = Morgan Stanley Research estimates

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Gemtek Technology

Gemtek: Financial Summary

Fiscal year ends December 31

Consolidated Income Statements

NT\$ m	2007	2008E	2009E	2010E
Net sales	17,492	21,141	21,079	24,464
COGS	-15,428	-18,298	-18,347	-21,300
Gross profit	2,065	2,843	2,732	3,164
Operating expenses	-979	-1,210	-1,306	-1,515
Operating income	1,085	1,633	1,425	1,649
Non-operating income	203	235	50	-10
Interest income	4	-13	0	0
Investment income	-95	-75	-30	-30
Disposal of investment	240	156	80	20
Disposal of fixed assets	3	-4	0	0
Exchange gain	152	180	0	0
Other	-101	-10	0	0
Pre-tax income	1,289	1,867	1,475	1,639
Income tax	-186	-411	-295	-328
Minority	-94	-58	0	0
Net income	1,008	1,399	1,180	1,311
Reported EPS (NT\$)	4.28	5.46	4.61	5.12
Modelware EPS (NT\$)	2.82	4.78	4.06	4.51

Consolidated Balance Sheets

NT\$ m	2007	2008E	2009E	2010E
Cash	2,838	2,114	3,117	2,395
Mkt securities	384	384	384	384
Accounts/Notes receivables	3,444	4,017	4,005	4,893
Inventory	1,692	2,562	2,752	2,982
Others	221	221	221	221
Current Assets	8,580	9,299	10,480	10,875
Long-term investments	735	810	840	870
Fixed assets	2,969	3,116	3,250	3,371
Other assets	183	183	183	183
Total Assets	12,467	13,408	14,752	15,299
S/T borrowings	0	0	0	0
AP/NP	3,141	3,111	4,036	4,047
Other ST liabilities	755	968	980	1,091
Other liabilities	100	100	100	100
L/T debt	742	742	742	742
Total Liabilities	4,738	4,920	5,857	5,979
Common shares	2,412	3,033	3,844	4,529
Other shareholders' equity	8,784	10,151	10,773	10,506
Shareholders' equity	7,730	8,488	8,895	9,320
Total Liab./Shrholder's Equity	12,467	13,408	14,752	15,299

Consolidated Cash Flow Statements

NT\$ m	2007	2008E	2009E	2010E
Cashflow from operations	2,315	607	2,397	728
Net Profits	1,008	1,399	1,180	1,311
Depreciation	372	391	407	423
Equity investment losses (income)	-95	-75	-30	-30
Other adjustments	1,030	-1,108	839	-976
Cashflow from investing	-549	-500	-500	-500
(Purchases) sale of FA (capex)	-249	-500	-500	-500
(Purchases) sale of L/T investment	33	0	0	0
(Purchases) sale of S/T investment	-277	0	0	0
Other adjustments	-57	0	0	0
Cashflow from financing	-1,025	-830	-894	-950
Increase in L/T debt	0	0	0	0
Increase in S/T debt	-172	0	0	0
Issuance of stock	0	0	0	0
Cash dividends	-553	-861	-731	-812
Dir. & Emp. Bonus	-148	-82	-164	-138
Other adjustments	-153	112	0	0
Exchange rate adjustment	-11	0	0	0
Net change in cash	730	-724	1,002	-722

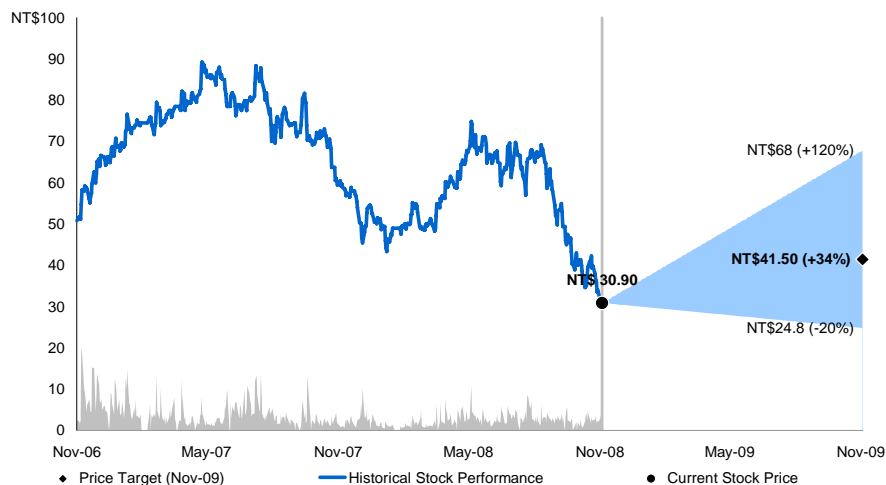
Consolidated Financial Ratios

	2007	2008E	2009E	2010E
Margins				
Gross margin	11.8%	13.4%	13.0%	12.9%
Operating margin	6.2%	7.7%	6.8%	6.7%
Pretax margin	7.4%	8.8%	7.0%	6.7%
Net margin	5.8%	6.6%	5.6%	5.4%
YoY growth				
Sales	6.5%	20.9%	-0.3%	16.1%
Operating profits	1.1%	50.4%	-12.7%	15.7%
Pretax profits	19.7%	44.9%	-21.0%	11.1%
Net profits	17.1%	38.7%	-15.6%	11.1%
EPS	7.3%	27.5%	-15.6%	11.1%
Net Debt/Equity (Net of mkt secs.)	-99%	-58%	-72%	-45%
Net Debt/Equity	-32%	-21%	-31%	-22%
Liabilities/Equity	61%	58%	66%	64%
Liabilities/Assets	38%	37%	40%	39%
ROAE	14%	17%	14%	14%
ROAA	8%	11%	8%	9%
AR/NR Turnover (days)	73.3	64.4	69.5	66.4
AP/NP Turnover (days)	73.6	62.4	71.1	69.3
Inventory Turnover (days)	45.9	42.4	52.9	49.1
Cash conversion cycle (days)	45.6	44.5	51.2	46.2

E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

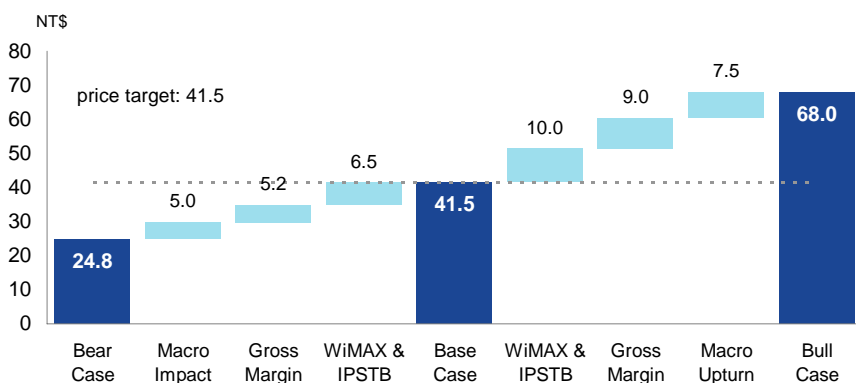
Risk Reward Snapshot: Gemtek (4906.TW, NT\$30.90, OW, PT NT\$41.50)

Risk-Reward View: Diversified Product Exposure to Help Reduce Effects of Retail Networking Segment Slowdown in 2009



Price Target NT\$41.50	Based on our US GAAP-adjusted residual income valuation.	
Bull case NT\$68.00	16.8x Bull Case 09e EPS	Greater ramp up of WiMAX CPE and IP STB: 1) Greater top-line expansion in WiMAX CPE and IP STB brings 40% YoY growth in 2009-10E; 2) GM expands to 14% on favorable product mix.
Base case NT\$41.50	10.2x Base Case 09e EPS	Business transition to non-retail segment: 1) WiMAX CPE and IP STB revenue CAGR at 34% in 2009-10E; 2) high-margin products account for one-third of total revenue (i.e., WiMAX CPE, IP STB); 3) GM sustained at 13% on better product mix.
Bear case NT\$24.80	6.1x Bear Case 09e EPS	Not immune to macro slowdown: 1) Smaller top-line expansion on slower WiMAX CPE project development for 10% YoY revenue growth in 2009-10E; 2) GM dips to 12% as pricing pressure persists.

Bear to Bull Driven Primarily by New Products and GM Expansion



Source: Morgan Stanley, FactSet

Investment Thesis

- Major growth to come from: 1) rising adoption of 11n and the latest WiMAX standard; 2) ramp-up of WiMAX CPE for early deployment; and 3) fresh contribution from integrated products for carriers, such as IP STB and IAD.
- Rising mix of high-margin products and enlarged production scale should help expand operating leverage.

Key Value Drivers

- Introduction of new products such as WiMAX CPE and IP STB should create incremental revenue streams.

- 11n adoption should trigger a device upgrade cycle in the next two years.

- Favorable product mix should help mitigate pricing pressure and margin expansion.

Potential Catalysts

- New top-tier client addition
- Worldwide WiMAX deployment
- Release of new wireless connectivity standard
- Strategic alliance with leading players

Key Risks

- Slower 11n adoption and lengthier WiMAX deployment would cap Gemtek's upside potential.
- Pricing pressure in excess of 20% YoY in legacy products and delayed launch of lower-cost solutions would be a risk to our estimates and price target.
- Intense competition would probably lead to heavy pricing pressure and halt the expansion in the gross margin.

Investment Case

3Q Results in Line – FX Gain Offset Mild Revenue Shortfall and Tax Expense Increase

Gemtek's 3Q EPS reached NT\$1.49 (up 1% QoQ and 76% YoY), at the low end of guidance but in line with expectations. Revenue stayed flat with 2Q08 at NT\$5.7bn, lower than the guided 5-10% increase, due mainly to a WLAN-related product slowdown (AP/routers) per weaker retailer networking demand. GM was sustained at 13.5% while the OM was slightly lower at 7% on rising marketing expense for new client penetration. The FX gain of NT\$161mn (NT\$0.63 per share) was able to offset the core profit shortfall and higher tax expense (30% tax rate). Inventory was well controlled at NT\$2.1bn or 42 days, the same level as in 2Q. Gemtek retained its net cash position at the end of 3Q, with a total of NT\$2.5bn in cash on hand.

4Q Decline Inevitable, but a Relatively Smaller Magnitude

The management guides for a flat to 5% QoQ revenue decline in 4Q with the slowness coming from the retailer networking space (MSe down 5-10% QoQ) with shipment momentum for IP STB and WiMAX CPE holding relatively steady. Thanks to ongoing diversification into niche telco segment this year, Gemtek has showed better revenue growth, with expectations for a 20%+ YoY increase in 2008 compared to flattish or down in the single digits YoY for most of its peers. With product mix turning more favorable on rising high-margin telco-related product shipments (to 35%+ by 4Q08E, up from 7% in 2007), Gemtek's GM should be sustained at around 13% in 4Q, leading to a widening in the full-year GM of 1.4ppt to 13.2% (after employee bonus expense). We now look for Gemtek's 2008 EPS to reach NT\$4.78, up 70% YoY on a US GAAP basis.

Product Mix Change Positive for 2009

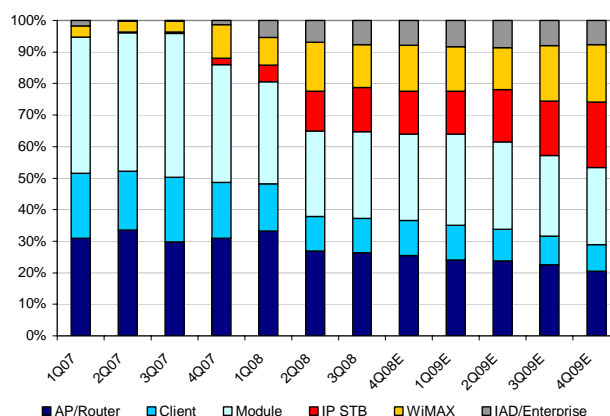
Initial revenue guidance for 2009 was set at a 10% YoY increase with IP STB (new top-tier client penetration) and WiMAX CPE (rollouts in emerging markets) remaining the major growth drivers while AP/router ODM project momentum is relatively lukewarm per weakening macro outlook. We hold a more cautious view than Gemtek, with our outlook for merely flattish revenue in 2009 as we believe slower consumer spending will prolong the home networking device replacement cycle and continue to depress WLAN-related products (down 7-19% YoY), which likely offset the growing revenue stream from the company's niche focus on the telco/SI segment (up 20%+ YoY) – i.e., IP STB and WiMAX CPE.

Nonetheless, we see Gemtek's ongoing efforts to diversify its exposure (with balanced product portfolio for retail/IT/telco

segment) favoring its margin trend (greater contribution from above-average margin products) and lowering its dependence on the slower retail networking segment. (Exhibit 1) This should help eliminate some of the price cut pressures and effects of operating deleveraging. We estimate Gemtek's 2009 GM and OM to trend slightly lower to 12.7% and 5.9%, respectively, from 13.2% and 6.7% in 2008E, and look for full-year 2009 EPS to reach NT\$4.06, down 16% YoY.

Exhibit 1

Gemtek: Rising High-margin Product Mix a Positive



E = Morgan Stanley Research estimates
Source: Company data, Morgan Stanley Research

Solid Balance Sheet to Weather Downturn Plus 12% Yield

By end of 3Q08, Gemtek had NT\$2.5bn of cash on hand with a net cash-to-equity ratio of 14% plus an unused credit line of NT\$3bn from a previous syndicated loan. This leads us to believe that Gemtek would have limited bankruptcy risk or funding problems amid an economic downturn. The cash conversion cycle also holds up well at 32 days vs. 26 days in

2Q08 and 37 days in 2007 as inventory increased slightly to

Company Description

Established in 1988, Gemtek is the leading provider of wireless broadband solutions, offering a wide range of WLAN solutions for enterprise, SoHo & public access.

Taiwan Networking Equipment

Industry View: In-Line

Rising demand for better connectivity should fuel medium-term growth and mitigate pricing pressure for Taiwanese networking suppliers.

MSCI Country: Taiwan

Asia Strategist's Recommended Weight: 11.9%
MSCI Asia/Pac All Country Ex Jp Weight: 12.0%

NT\$2.1bn or 38 days vs. 36 days in 2Q.

Management has given no indication that it intends to change its dividend payout ratio for 2008 (around 80%) and given the company's ample cash on hand, we expect Gemtek's 2008 cash dividend to mount to NT\$3.57 per share, implying an 12% dividend yield based on the latest closing price, higher than the average 8.9% of the Taiwan tech peers universe.

Exhibit 2

Gemtek: Healthy CCC Days and Net Cash Position

NT\$ m	3Q08	2Q08	1Q08	2H07	1H07
AR	4,780	4,204	3,423	3,387	4,067
AP	4,240	4,277	3,438	3,141	3,296
Inventory	2,133	2,038	1,932	1,692	2,333
A/R days	72	60	74	78	80
A/P days	79	70	81	89	90
Inventory days	38	36	45	48	53
Cash conversion cycle	32	26	37	37	43
Cash	2,487	3,535	1,950	2,838	1,016
Marketable Security	45	229	295	384	1,087
ST borrowing	0	0	0	0	0
Current Portion of LT debt	590	703	696	0	0
LT liability	930	956	0	742	760
Equity	7,111	6,574	6,891	7,730	7,251
Net cash	-1,012	-2,106	-1,549	-2,481	-1,344
Net cash /equity (%)	-14%	-32%	-22%	-32%	-19%

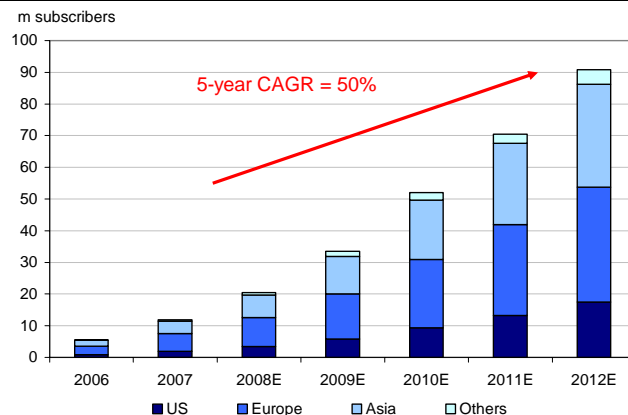
Source: Company data, Morgan Stanley Research

Favorable Industry Development Trend – IP TV and WiMAX

According to MIC, worldwide IP TV subscribers will amount to more than 20mn by the end of 2008 and post a five-year CAGR of 50% to break through 90mn subscribers by 2012. We believe this is due mainly to the gradual shutdown of the analog signal region-wide plus increasing triple-play service offerings from carriers and ISPs with attractive packages, various content programs, and user-friendly interfaces, as evidenced by the sharp increase in PCCW's subscriber base in Hong Kong and FT/Free's in France this year.

Exhibit 3

Worldwide IPTV Subscriber Five-year CAGR at 50% (2007-12E)

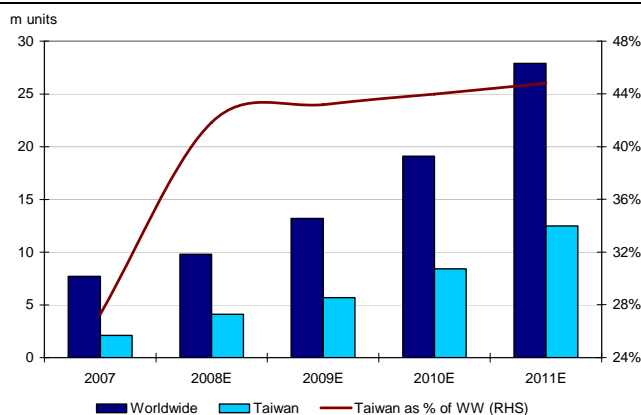


E = MIC and TRI estimates; Source: MIC, TRI and Morgan Stanley Research

By far, the majority of STB shipments from Taiwan go to Europe, followed by Japan, the US and Canada, and China. To increase value-adds, most STB ODMs in Taiwan aim to offer high-resolution and integrated devices, such as hard-disc drive- and DVD-embedded STB supporting HDMI, MPEG4, and DVR functions to act as the home of multi-functional gateways. We believe total IP STB shipments from Taiwan will remain around 40-45% of worldwide market share, implying an organic five-year CAGR at 50% in 2007-12E for ODM suppliers such as Gemtek, Alpha Networks, and ZyXEL.

Exhibit 4

Taiwan IP STB Shipment Market Share Holds at 40%+ in 2008-11E



E = TRI and Morgan Stanley estimates
Source: TRI and Morgan Stanley Research

We continue to see WiMAX deployment in emerging markets despite the recent economic turmoil, driven mainly by rising broadband connection needs with lower initial deployment costs as compared to cellular networks. The recent rollout of

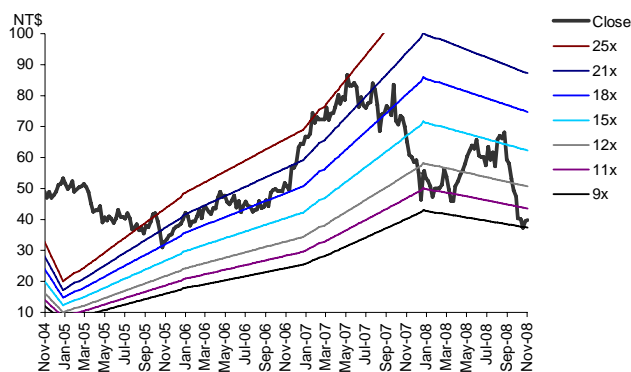
WiMAX service (Xohm) in Baltimore, Maryland, on October 8, marked a new milestone for mobile WiMAX networks in developed regions following the US FCC's approval of nation-wide deployment in the US. We understand the debate over WiMAX and LTE as the 4G network standard continues, but we hold to our view that the WiMAX infrastructure builds will continue to proliferate in emerging markets, which should benefit the CPE vendors such as Gemtek, Tecom, and ZyXEL in Taiwan.

Earnings Revision and Price Target Discussion

We fine-tuned our 2008 earnings estimates by 1%, but lowered our 2009 and 2010 EPS estimates by 25% and 26%, respectively, to reflect the impact of weaker consumer demand for retail networking device projects. Our new target price of NT\$41.50 is based on our US GAAP-adjusted residual income valuation, implying 10.2x our 2009E EPS on US GAAP. We factor in a lower terminal growth assumption of 3% vs. 5% previously, in line with our downstream hardware tech universe, and also reduced the mid-term growth rate to 10% from 12% to take into consideration changing industry dynamics. However, we have applied an 8.9% cost of equity for Gemtek, in line with peers' 8.5-9%. We reiterate our Overweight rating on Gemtek, given the company's positioning for the 11n and WiMAX take-off, ongoing tier-one customer wins, plus the business structure shift for the upcoming triple-play integration.

Exhibit 5

Gemtek: One-year Forward P/E Band (US GAAP)



Source: Company data, Morgan Stanley Research

Three-way Scenario Analysis

We regard Gemtek as the technology leader in Taiwan's wireless connectivity space, enjoying production scale merits along with benefits from technology developments. We

performed a three-way scenario analysis to gauge how much of the expected earnings upside is already in the price. In our view, the stock price has not yet factored in the assumptions for our **base-case** scenario, which forms the basis for our price target calculation. These assumptions are as follows: 1) top-line expansion with WiMAX CPE and IP STB models kicking in for 34% revenue CAGR in 2009-10E; and 2) the gross margin holds at 13% on better product mix that is able to offset pricing pressure on low value-added products. We therefore set our price target at NT\$41.50, which implies 34% potential upside from current levels.

Our worldwide wireless LAN, WiMAX, and broadband networking device assumptions are based on estimates by Morgan Stanley's communications team and leading industry research institutes, including IDC, iSuppli, and Synergy Research. The allocation of orders to Gemtek is based on company guidance and industry channel checks.

Our **bull case** factors in: 1) WiMAX CPE and IP STB revenue surge leads to greater expansion for 40% YoY growth in 2009-10E; and 2) the gross margin expands 1ppt to 14% in 2009E on a favorable product mix and strict cost controls. Our bull case implies a fair value of NT\$68 or 16.8x our 2009E EPS estimate.

Our **bear case** assumes: 1) smaller WiMAX CPE and IP STB revenue contributions leads to merely 10% YoY revenue growth in 2009-10E; and 2) the gross margin contracts 1ppt to 12% on greater pricing erosion pressure at legacy products. These assumptions imply a fair value of NT\$24.80. We think Gemtek stock will be re-rated and trend upward after macro turmoil been settled based on the aforementioned catalysts given the favorable risk-reward, visible growth drivers, margin expansion, and compelling valuations.

Risks to Our Price Target

Risks to our target price include: 1) uncertainty associated with end-market demand, especially for wireless connectivity devices, and deployment speed for WiMAX technology; 2) worse-than-expected pricing pressure due to decelerating end-demand and intensifying competition; and 3) market position changes that might affect Gemtek's sales momentum and, hence, earnings growth estimates.

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Exhibit 6

Gemtek: 3Q Result Summary Table and 3Q Official Guidance

NT\$ m	3Q08 Result			MS Est.	Variance	3Q07	2Q08
	Actual	QoQ	YoY				
Sales	5,719	-1%	25%	5,967	-4%	4,571	5,795
COGS	-4,931	-1%	23%	-5,163	-4%	-4,014	-4,992
Gross profit	787	-2%	41%	804	-2%	557	804
Operating expense	-327	7%	49%	-313	5%	-219	-304
Promotion	-82	35%	172%	-62	31%	-30	-60
ADM	-85	23%	32%	-71	21%	-64	-69
R&D	-160	-8%	28%	-180	-11%	-125	-175
Operating profit	460	-8%	36%	491	-6%	338	499
Total non-operating income	126	6%	727%	25	398%	15	119
Net Interest Inc.	-7	NA	-29%	1	NM	-10	1
Net Investment Inc.	-8	-70%	-81%	-16	-52%	-40	-26
Disposal of Investment	-4	NM	NM	20	NM	60	94
Disposal of Fixed Assets	-1	86%	NM	0	NM	0	-1
Exchange Gain (Loss)	161	183%	NM	0	NM	0	57
Others Income (Loss)	-15	121%	-386%	20	NM	5	-7
Pre-tax profit	587	-5%	66%	517	14%	353	619
Income tax	-174	27%	249%	-78	124%	-50	-137
Minority	14	NA	NA	0	NA	0	-47
Reported net profit	426	-2%	41%	439	-3%	303	435
Reported EPS (NT\$)	1.66	-2%	29%	1.71	-3%	1.29	1.70
Employee bonus expense	-64	-15%	-47%	-66	-3%	-121	-75
Modelware net profit	381	1%	92%	383	0%	199	376
Modelware EPS (NT\$)	1.49	1%	76%	1.50	0%	0.85	1.47
Margins (%) - Pre-bonus adjusted							
Gross margin	13.8%	-0.1 ppt	1.6 ppt	13.5%		12.2%	13.9%
Operating margin	8.0%	-0.6 ppt	0.7 ppt	8.2%		7.4%	8.6%
Pre-tax margin	10.3%	-0.4 ppt	2.5 ppt	8.7%		7.7%	10.7%
Net margin	7.5%	0.0 ppt	0.8 ppt	7.4%		6.6%	7.5%
Margins (%) - Post-bonus adjusted							
Gross margin	13.5%	-0.1 ppt	1.3 ppt	13.2%		12.2%	13.5%
Operating margin	6.9%	-0.4 ppt	2.2 ppt	6.7%		4.7%	7.3%
Pre-tax margin	9.1%	-0.2 ppt	4.1 ppt	7.6%		5.1%	9.4%
Net margin	6.7%	0.2 ppt	2.3 ppt	6.4%		4.4%	6.5%

Source: Company data, Morgan Stanley Research

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Exhibit 7

Gemtek: US GAAP-adjusted Residual Income Valuation

<i>NT\$ m; Y/E Dec 31</i>	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Total Equity	8,895	9,320	10,737	12,295	14,009	15,894	17,968	20,249	22,758	25,519	28,362
Core Net Profit	913	1,018	1,124	1,240	1,368	1,510	1,666	1,838	2,028	2,237	2,310
Return on Equity	10.8%	11.4%	12.1%	11.5%	11.1%	10.8%	10.5%	10.2%	10.0%	9.8%	9.1%
Beta (Last 60 Mths)	1										
Equity Risk Premium (Rm-Rf)	6%										
Risk Free Rate (Rf)	3%										
Cost of Equity	9%										
Terminal Growth Rate	3%										
Continuing Value Spread	1%										
2009-2019 growth rate	10%										
Residual Income	155	223	290	280	269	258	245	232	218	202	29
Spread	2%	3%	3%	3%	2%	2%	2%	1%	1%	1%	0%
Year-end Equity Capital	8,895										
PV of Forecast Period	1,515										
PV of Continuing Value	214										
Equity Value	10,624										
No. of Shares	256										
Projected Price (EoY)	41.5										
Implied 09 P/E on US GAAP	10x										

e = Morgan Stanley Research estimates

Source: Morgan Stanley Research

Exhibit 8

Gemtek: Quarterly Earnings Summary, 2007-09E (Pre- and Post-employee Bonus Dilution)

NT\$ m	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08E	2007	2008E	2009E
Sales	4,317	4,420	4,571	4,184	4,222	5,795	5,719	5,405	17,492	21,141	21,079
COGS	-3,774	-3,987	-4,014	-3,651	-3,683	-4,992	-4,931	-4,692	-15,428	-18,298	-18,347
Gross profit	542	433	557	533	539	804	787	713	2,065	2,843	2,732
Operating expenses	-242	-211	-219	-307	-261	-304	-327	-318	-979	-1,210	-1,306
- Promotion	-58	-57	-30	-27	-43	-60	-82	-77	-172	-262	-262
- ADM	-68	-61	-64	-72	-66	-69	-85	-85	-266	-306	-358
- R&D	-115	-93	-125	-208	-152	-175	-160	-155	-542	-642	-686
Operating profit	301	221	338	226	277	499	460	396	1,085	1,633	1,425
Non-operating income	61	209	15	-82	-28	119	126	17	203	235	50
Interest income	-8	-14	-10	36	0	1	-7	-7	4	-13	0
Investment income	3	-20	-40	-38	-25	-26	-8	-16	-95	-75	-30
Disposal of investment	0	127	60	53	46	94	-4	20	240	156	80
Disposal of fixed assets	0	0	0	3	-2	-1	-1	0	3	-4	0
Exchange gain	71	41	0	40	-38	57	161	0	152	180	0
Others	-5	75	5	-176	-8	-7	-15	20	-101	-10	0
Pre-tax profit	362	430	353	144	249	619	587	413	1,289	1,867	1,475
Income tax	-61	-29	-50	-46	-45	-137	-174	-55	-186	-411	-295
Net profit	301	308	303	96	179	435	426	358	1,008	1,399	1,180
EPS-Pre-Employee Bonus	1.28	1.31	1.29	0.41	0.70	1.70	1.66	1.40	4.28	5.46	4.61
EPS-Post-Employee Bonus	0.85	0.82	0.85	0.30	0.60	1.47	1.49	1.22	2.82	4.78	4.06
Margins (Pre-Employee Bonus)											
Gross margin	12.6%	9.8%	12.2%	12.7%	12.8%	13.9%	13.8%	13.2%	11.8%	13.4%	13.0%
Operating margin	7.0%	5.0%	7.4%	5.4%	6.6%	8.6%	8.0%	7.3%	6.2%	7.7%	6.8%
Pre-tax margin	8.4%	9.7%	7.7%	3.4%	5.9%	10.7%	10.3%	7.6%	7.4%	8.8%	7.0%
Net margin	7.0%	7.0%	6.6%	2.3%	4.2%	7.5%	7.5%	6.6%	5.8%	6.6%	5.6%
Margins (Post-Employee Bonus)											
Gross margin	-	-	-	-	12.7%	13.5%	13.5%	12.9%	11.8%	13.2%	12.7%
Operating margin	-	-	-	-	5.8%	7.3%	6.9%	6.3%	3.9%	6.7%	5.9%
Pre-tax margin	-	-	-	-	5.2%	9.4%	9.1%	6.6%	5.1%	7.8%	6.2%
Net margin	-	-	-	-	3.7%	6.5%	6.7%	5.8%	3.8%	5.8%	4.9%
QoQ Growth (Pre-Employee Bonus)											
Sales	-4.4%	2.4%	3.4%	-8.5%	0.9%	37.3%	-1.3%	-5.5%	6.5%	20.9%	-0.3%
Gross profit	27.4%	-20.3%	28.7%	-4.2%	1.0%	49.2%	-2.0%	-9.4%	7.9%	37.7%	-3.9%
Operating profit	51.8%	-26.5%	52.7%	-33.1%	22.7%	80.1%	-7.8%	-14.0%	1.1%	50.4%	-12.7%
Pre-tax profit	62.8%	18.8%	-17.9%	-59.2%	73.1%	148.3%	-5.2%	-29.7%	19.7%	44.9%	-21.0%
Net profit	178.9%	2.4%	-1.7%	-68.3%	86.4%	142.4%	-1.9%	-16.0%	17.1%	38.7%	-15.6%
QoQ Growth (Post-Employee Bonus)											
Sales	-	-	-	-	0.9%	37.3%	-1.3%	-5.5%	6.5%	20.9%	-0.3%
Gross profit	-	-	-	-	0.4%	46.1%	-1.7%	-9.2%	7.9%	34.9%	-3.7%
Operating profit	-	-	-	-	31.6%	71.8%	-6.6%	-13.7%	20.0%	106.6%	-11.4%
Pre-tax profit	-	-	-	-	107.3%	148.5%	-3.8%	-31.3%	55.0%	85.7%	-21.0%
Net profit	-	-	-	-	120.1%	143.8%	1.3%	-18.3%	56.1%	84.5%	-15.1%

P= Preliminary Results E= Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

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Gemtek Technology

Exhibit 9

Gemtek: Key Revenue and Margin Assumptions

NT\$ m	2006	2007	2008E	2009E	2010E
Sales (NT\$ m)					
AP/Router					
- Volume (m units)	3.0	4.5	5.1	4.2	4.8
- ASP (US\$)	38.4	37.2	37.9	37.0	35.2
Total AP/Router sales	3,793	5,479	5,841	4,747	5,203
Client					
- Volume (m units)	7.7	6.5	5.8	5.1	4.2
- ASP (US\$)	15.9	16.2	14.0	12.9	12.5
Total Client sales	3,981	3,389	2,492	2,012	1,607
Module					
- Volume (m units)	21.1	26.4	24.6	24.0	27.6
- ASP (US\$)	10.8	8.7	8.0	7.6	7.2
Total module sales	7,450	7,447	5,988	5,573	6,089
Enterprise					
Legacy / IAD					
- Volume (m units)	1.0	1.4	0.9	1.2	1.4
- ASP (US\$)	25.5	3.3	52.8	46.4	46.4
Total legacy	843	150	1,490	1,705	2,046
WiMAX (fixed)					
- Volume (k units)	53	112	428	650	845
- ASP (US\$)	0.2	228.9	196.1	129.1	116.2
Total WiMAX (fixed)	352	835	2,560	2,559	2,994
WiMAX (mobile)					
- Volume (k units)	-	20	380	600	900
- ASP (US\$)	-	120.0	24.2	45.0	38.3
Total WiMAX (mobile)	-	78	281	824	1,050
IP STB					
- Volume (m units)	-	0.03	0.75	1.20	2.04
- ASP (US\$)	-	117.3	108.8	100.0	88.0
Total IP STB	-	114	2,489	3,660	5,475
Total enterprise sales	1,195	1,177	6,819	8,747	11,565
Total sales	16,419	17,492	21,141	21,079	24,464
Sales breakdown					
AP/Router	23%	31%	28%	23%	21%
Client	24%	19%	12%	10%	7%
Module	45%	43%	28%	26%	25%
Enterprise	7%	7%	32%	41%	47%
Legacy / IAD	5%	1%	7%	8%	8%
WiMAX (fixed)	2%	5%	12%	12%	12%
WiMAX (mobile)	0%	0%	1%	4%	4%
STB	0%	1%	12%	17%	22%
Gross Margin (%)					
AP/Router	14.5%	14.7%	13.8%	12.8%	12.5%
Client	11.0%	11.0%	10.0%	9.5%	9.3%
Module	9.1%	8.8%	8.7%	8.3%	8.3%
Enterprise	21.0%	19.9%	18.6%	16.9%	16.1%
Legacy / IAD	21.0%	20.0%	19.7%	18.0%	18.0%
WiMAX (fixed)	21.0%	20.3%	21.2%	18.9%	18.0%
WiMAX (mobile)	0.0%	21.0%	20.8%	20.0%	18.0%
STB	0.0%	16.3%	15.0%	14.2%	14.0%
Overall GM	11.7%	11.8%	13.4%	13.0%	12.9%

E = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

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Exhibit 10

Valuation Comparison – Networking Equipment Industry (US GAAP)

Ticker	Price		Rating	Price Target	Market Cap (US\$ m)	EPS		P/E		P/S		P/B		EV/EBITDA		ROA (%)		ROE (%)	
	11/20/2008					08E	09E	08E	09E	08E	09E	08E	09E	08E	09E	08E	09E	08E	09E
Taiwan players																			
0722.HK	Delta Networks	1.00	O	1.45	154	0.20	0.16	4.9	6.3	0.4	0.3	0.5	0.5	-3.9	-5.9	12.7	9.6	8.1	5.8
2332.TW	D-Link	17.7	E	26.5	371	2.77	2.56	6.4	6.9	0.4	0.4	0.6	0.6	2.3	2.0	7.1	6.7	10.1	9.1
4906.TW	Gemtek	30.9	O	41.5	219	4.78	4.06	6.5	7.6	0.3	0.3	1.0	1.0	2.8	2.8	9.5	7.5	15.1	12.0
2391.TW	Zyxel*	14.3	NR	NA	222	0.70	1.33	20.4	10.7	0.5	0.4	0.7	0.6	2.8	2.1	-	-	4.8	4.8
3380.TW	Alpha Networks*	14.3	NR	NA	193	1.72	1.71	8.3	8.3	0.3	0.2	0.8	0.7	1.9	1.8	-	-	14.3	14.3
5388.TW	Sercomm*	10.4	NR	NA	53	2.33	2.41	4.4	4.3	0.2	0.2	0.7	0.6	1.9	1.7	-	-	15.3	15.3
Global peers																			
CSCO.O	Cisco Systems	15.1	O	22.0	90,058	1.34	1.18	11.2	12.8	3.4	2.4	3.8	2.2	9.8	6.5	18.6	15.7	25.1	18.6
JNPR.O	Juniper	14.0	E	NA	7,412	0.98	1.05	14.3	13.4	2.2	2.0	0.9	0.9	6.2	5.2	7.2	7.8	9.6	9.3
MOT.N	Motorola	3.4	E	NA	7,795	0.05	0.21	68.6	16.2	0.3	0.3	0.5	0.5	2.5	1.3	-1.3	1.3	0.8	3.3
NTGR	Netgear*	9.5	NR	NA	335	1.02	1.00	9.3	9.5	0.5	0.5	0.8	0.7	78.7	70.4	-	-	8.8	7.6
NT.N	Nortel Networks	0.5	E	NA	259	-0.28	-0.36	-1.9	-1.5	0.0	0.0	-	-	4.6	6.6	-20.2	-2.4	-15.9	-
0763.HK	ZTE	14.2	E	32.2	2,167	1.27	1.42	11.2	10.0	0.4	0.3	1.2	1.0	6.6	5.8	6.4	7.1	12.4	12.2

Note: Prices and targets in NT\$. E = Morgan Stanley Research estimates for covered companies, I/B/E/S estimates for non-covered (NR) companies.
Ratings: E = Equal-weight, O = Overweight, NR = Not Rated (not covered by Morgan Stanley)
Source: Company data, I/B/E/S, Morgan Stanley Research

Exhibit 11

Valuation Comparison- Tech Hardware Industry (US GAAP)

Ticker	Closing Price	Rating	Price Target	Market Cap (US\$ m)	EPS (Local Dollar)		P/E (X)		P/S (X)		P/B (X)		EV/EBITDA		ROA (%)		ROE (%)		
					11/20/2008		(Local Dollar)	(US\$ m)	08E	09E	08E	09E	08E	09E	08E	09E	08E	09E	08E
EMS & PC system																			
2353.TW	Acer	39.8	O	60.0	3,003	4.90	5.12	8.1	7.8	0.2	0.2	1.2	1.2	5.0	4.3	4.7	4.7	15.3	15.8
2357.TW	Asustek	32.2	O	68.0	3,609	6.35	6.51	5.1	4.9	0.4	0.4	0.8	0.7	2.0	1.6	7.4	8.3	16.9	15.5
2324.TW	Compal	15.8	E	23.0	1,968	3.18	3.18	5.0	5.0	0.2	0.1	0.7	0.7	3.9	4.1	7.8	7.4	16.5	15.4
2308.TW	Delta Electronics	58.1	O	81.0	3,679	5.10	5.24	11.4	11.1	0.8	0.8	1.6	1.6	6.2	5.7	9.2	9.2	15.3	15.6
2317.TW	Hon Hai	54	E	65.0	12,038	9.11	7.15	5.9	7.6	0.2	0.2	0.9	0.8	4.0	3.6	7.3	5.3	16.4	11.6
0992.HK	Lenovo	1.82	U	1.80	2,279	0.04	0.03	6.3	6.7	0.1	0.1	1.1	1.0	2.6	3.0	5.4	5.3	21.6	17.8
2315.TW	Mitac	9.96	E	13.0	436	1.87	1.77	5.3	5.6	0.2	0.2	0.5	0.4	3.0	2.3	4.7	4.6	8.4	7.8
3518.TW	Paragon	45.5	O	105.0	96	7.77	9.86	5.9	4.6	1.6	1.3	0.9	0.8	3.1	3.0	14.4	16.0	15.0	17.7
2382.TW	Quanta	33.75	E	39.0	3,637	5.84	5.48	5.3	5.5	0.1	0.1	1.2	1.2	4.4	5.0	6.2	5.5	22.4	20.0
3231.TW	Wistron	18.7	O	32.0	777	5.01	5.26	3.7	3.6	0.1	0.1	0.7	0.7	4.0	3.6	5.4	4.8	20.6	19.7
Handset & Networking																			
2018.HK	AAC Acoustic	2.56	O	5.0	363	0.55	0.61	4.1	3.7	1.1	1.1	0.8	0.7	2.1	1.3	18.6	16.8	23.1	20.6
0285.HK	BE	2.35	O	5.3	607	0.59	0.59	3.5	3.5	0.5	0.3	0.7	0.6	1.9	2.2	13.7	10.2	23.2	17.8
1211.HK	BYD	11.85	E	10.2	2,762	0.90	0.90	11.6	11.6	0.7	0.5	1.4	1.3	6.2	6.1	5.5	4.7	13.2	11.6
8078.TW	CCI	14.45	U	22.5	246	2.42	2.16	6.0	6.7	0.2	0.2	0.7	0.7	-2.3	-3.5	6.7	6.2	12.3	11.1
2332.TW	D-Link	17.7	E	26.5	371	2.77	2.56	6.4	6.9	0.4	0.4	0.6	0.6	2.3	2.0	5.7	5.2	10.1	9.1
0722.HK	Delta Networks	1	O	1.45	154	0.16	0.12	6.3	8.3	0.4	0.3	0.5	0.5	-4.2	-6.3	5.8	4.1	8.1	5.8
2038.HK	FIH	2.02	E	3.7	1,816	0.07	0.06	3.6	4.0	0.1	0.1	0.5	0.4	1.8	1.7	6.9	5.4	14.1	11.0
4906.TW	Gemtek	30.9	O	41.5	219	4.78	4.06	6.5	7.6	0.3	0.3	1.0	1.0	2.8	2.8	9.5	7.5	15.1	12.0
2498.TW	HTC	274.5	E	350	6,234	37.63	34.93	7.3	7.9	1.4	1.3	3.3	2.9	5.9	5.7	29.4	24.8	47.7	39.2
3008.TW	Largan	206.5	O	435	808	25.66	28.36	8.0	7.3	3.4	3.0	2.2	1.9	5.8	4.7	27.3	25.5	29.9	27.7
2439.TW	Merry	21.8	E	46.0	104	4.35	4.08	5.0	5.3	0.4	0.3	0.8	0.7	2.9	3.1	8.8	8.0	15.1	13.9
3311.TW	Silitech	43.4	O	98	196	6.18	6.55	7.0	6.6	0.7	0.6	1.6	1.4	3.4	2.3	11.6	11.3	23.6	22.5
2000.HK	SIM Tech	0.38	E	0.52	74	0.16	0.16	2.1	2.1	0.2	0.2	0.4	0.4	-0.5	-0.8	11.5	10.7	18.0	16.2
3044.TW	Tripod	28.85	E	45	401	7.01	5.23	4.1	5.5	0.4	0.4	0.8	0.8	2.7	2.4	9.7	6.5	22.2	14.8
3037.TW	Unimicron	11.75	O	22.3	386	2.86	2.48	4.1	4.7	0.3	0.3	0.4	0.4	2.0	1.6	5.0	4.3	10.8	9.1
8046.TW	Nan Ya PCB	68.2	O	99.0	1,267	11.32	9.80	6.0	7.0	1.1	1.2	1.1	1.1	3.3	3.6	15.9	14.0	18.4	16.1
0763.HK	ZTE	14.2	E	32.2	2,167	1.27	1.42	9.8	8.8	0.4	0.3	1.2	1.0	5.0	4.4	3.6	3.4	12.4	12.2
Consumer & LED																			
2474.TW	Catcher	46.3	U	79.1	829	8.11	8.31	5.7	5.6	1.4	1.3	0.9	0.8	3.7	3.4	12.5	11.5	17.5	15.9
2392.TW	Cheng Uei	28.95	U	44.0	350	4.33	3.83	6.7	7.6	0.2	0.2	0.6	0.6	3.5	3.7	4.9	4.2	10.7	9.0
2448.TW	Epistar	26	U	22.2	485	1.12	1.55	23.3	16.7	1.5	1.4	0.7	0.7	7.8	6.4	2.5	3.5	3.0	4.2
2393.TW	Everlight	33.75	E	74.5	356	4.75	4.92	7.1	6.9	1.0	0.9	1.2	1.2	5.5	4.5	9.9	9.6	16.6	16.4
2354.TW	Foxconn Tech	58.5	O	99.0	1,335	8.32	8.98	7.0	6.5	0.3	0.3	1.2	1.1	5.2	4.6	7.5	8.3	15.6	17.7

e = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research



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(as of October 31, 2008)

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Overweight/Buy	869	39%	275	42%	32%
Equal-weight/Hold	983	44%	286	44%	29%
Not-Rated/Hold	22	1.0%	6	0.9%	27.3%
Underweight/Sell	403	18%	89	14%	22%
Total	2,277		656		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Not-Rated/Hold (NA or NAV) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months. Please note that NA or NAV may also be used to designate stocks where a rating is not currently available for policy reasons. For the current list of Not-Rated/Hold stocks as counted above in the Global Stock Ratings Distribution Table, please email morganstanley.research@morganstanley.com.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

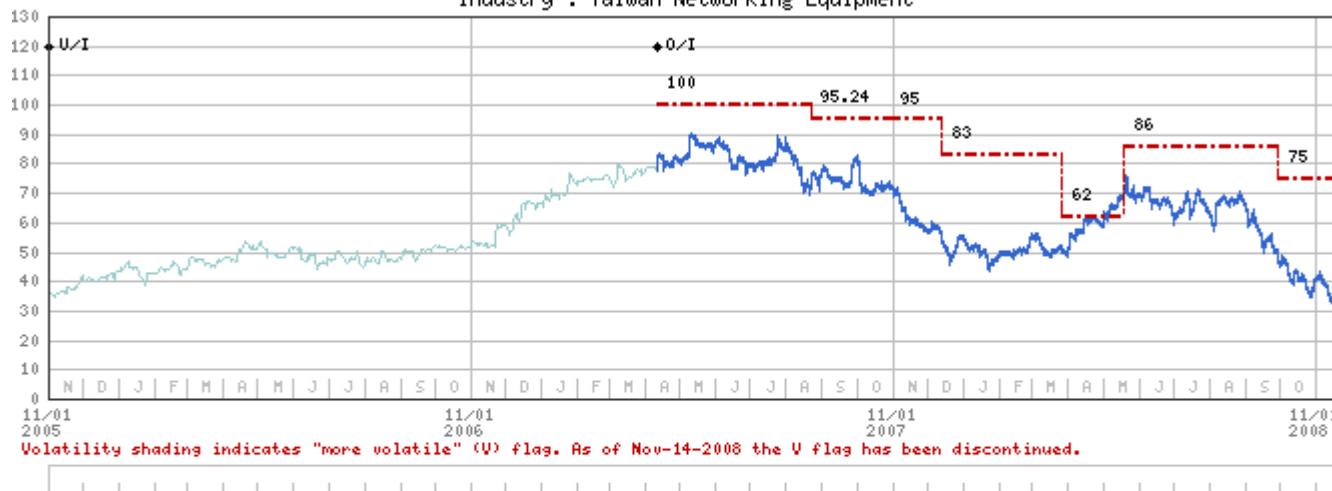
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Gemtek Technology (4906.TW) - As of 11/20/08 in TWD
Industry : Taiwan Networking Equipment



Stock Rating History: 11/1/05 : U/I; 4/11/07 : O/I

Price Target History: 4/11/07 : 100; 8/22/07 : 95.24; 10/30/07 : 95; 12/14/07 : 83; 3/27/08 : 62; 5/19/08 : 86; 9/30/08 : 75

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (U) No Rating Available (NAU)
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAU)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Other Important Disclosures

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For a discussion, if applicable, of the valuation methods used to determine the price targets included in this summary and the risks related to achieving these targets, please refer to the latest relevant published research on these stocks.

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November 20, 2008
Gemtek Technology

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Industry Coverage: Taiwan Networking Equipment

Company (Ticker)	Rating (as of)	Price (11/20/2008)
Sharon Shih		
D-Link Corporation (2332.TW)	E (09/30/2008)	NT\$17.7
Gemtek Technology (4906.TW)	O (04/11/2007)	NT\$30.9

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