Largan Precision Co. Ltd.

Price Objective Change UNDERPERFORM

Equity | Taiwan | Industrials/Multi-Industry
27 November 2008

Merrill Lynch

Even worse than expected

Laura Chen >> +886 2 2376 3723
Research Analyst
Merrill Lynch (Taiwan)
laura_chen@ml.com

Daniel Kim, CFA >> +852 2536 3443
Research Analyst
Merrill Lynch (Hong Kong)
daniel_kim@ml.com

Lower 4Q guidance from flat to 15-25% QoQ decline

Largan issued a sales outlook warning today and lowered its 4Q guidance from flat QoQ to 15-25% QoQ sales decline given weaker than expected order flow from top-tier handset branders. In our latest report "More negatives to come" on 24 November 2008, we highlighted that many Motorola projects are pending or have been postponed due to its recent supply chain reshuffle and platform restructuring. Nokia's order flow also seems to be falling on its negative view of the global handset industry. As Nokia and Motorola contribute more than 60% of Largan's lens business, we expect to see a significant ~40% MoM sales decline in November.

3MP project delay would hurt its gross margin

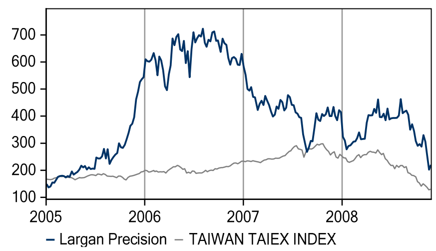
As some of Largan's new projects have been delayed given the uncertain demand, we think a rise in 3MP popularity could be further postponed to late 2H09. Along with rising ASP pressure on current 2MP products, we expect more margin pressure for the company. We therefore expect a 20% YoY earning decline for Largan with gross margin drop 2.6%.

Earning cut again, lower PO NT$173

Reflecting its worse than expected 4Q outlook and sluggish order flow in 1Q, we further cut our FY08/FY09E earnings by 5.3% and 4.7%. We lower our PO from NT$180 to NT$173, which is based on 9x 09E, at its historical trough cycle. We expect Largan will be discounted on the weaker handset and tech outlook. On Taiwanese handset components, we retain our negative view given their high exposure to Nokia, Motorola and SonyEricsson. We expect more negatives to come and suggest avoiding the sector. We expect 1Q09 will be a better checking point if order flow visibility improves.

Stock Data

Price	NT$220.00
Price Objective	NT$180.00 to NT$173.00
Date Established	27-Nov-2008
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	NT$193.00-NT$460.78
Mrkt Val / Shares Out (mn)	US$858 / 130.1
Average Daily Volume	1,817,288
ML Symbol / Exchange	LGANF / TAI
Bloomberg / Reuters	3008 TT / 3008.TW
ROE (2008E)	28.5%
Net Dbt to Eqty (Dec-2007A)	-20.9%
Est. 5-Yr EPS / DPS Growth	15.0% / 20.0%
Free Float	50.0%



Estimates (Dec)

(NT$)	2006A	2007A	2008E	2009E	2010E
Net Income (mn) Taiwan GAAP	3,891	2,581	3,135	2,502	2,596
EPS (Pre Bonus)	31.593	20.728	27.944	22.098	22.929
EPS (Post Bonus)	24.277	13.096	24.311	19.226	19.949
EPS Change (YoY)	226.3%	-46.1%	85.6%	-20.9%	3.8%
Dividend / Share	11.40	9.80	9.35	8.39	8.71
Free Cash Flow / Share	20.54	23.29	19.54	20.04	17.63

* Taiwan GAAP changed from Pre Bonus to Post Bonus earnings from 2008.

Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E (Post Bonus)	9.06x	16.80x	9.05x	11.44x	11.03x
Dividend Yield	5.18%	4.45%	4.25%	3.81%	3.96%
Free Cash Flow Yield*	8.83%	10.13%	8.80%	9.11%	8.02%

* For full definitions of *iQmethod* SM measures, see page 7.

Refer to important disclosures on page 8 to 9. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5. 10790028

RC

iQprofile SM Largan Precision Co. Ltd.

Key Income Statement Data (Dec)	2006A	2007A	2008E	2009E	2010E
(NT$ Millions)					
Sales	7,341	5,881	7,474	6,613	7,076
Gross Profit	4,547	3,273	4,026	3,392	3,538
Sell General & Admin Expense	(273)	(226)	(277)	(245)	(262)
Operating Profit	4,111	2,911	3,210	2,686	2,788
Net Interest & Other Income	58	93	97	32	32
Associates	0	0	0	0	0
Pretax Income	4,169	3,004	3,308	2,718	2,820
Tax (expense) / Benefit	(278)	(423)	(172)	(216)	(224)
Net Income (Adjusted)	3,891	2,581	3,135	2,502	2,596
Average Fully Diluted Shares Outstanding	123	125	129	130	130
Key Cash Flow Statement Data					
Net Income	3,891	2,581	3,135	2,502	2,596
Depreciation & Amortization	513	551	766	852	852
Change in Working Capital	(601)	333	(331)	254	(153)
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	228	154	(50)	0	0
Cash Flow from Operations	4,031	3,619	3,520	3,608	3,295
Capital Expenditure	(1,502)	(719)	(1,000)	(1,000)	(1,000)
(Acquisition) / Disposal of Investments	1	1	0	0	0
Other Cash Inflow / (Outflow)	(1,341)	217	0	0	0
Cash Flow from Investing	(2,843)	(501)	(1,000)	(1,000)	(1,000)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(802)	(1,382)	(1,232)	(1,199)	(1,129)
Cash Flow from Financing	(888)	(1,848)	(1,432)	(1,399)	(1,329)
Free Cash Flow	2,529	2,900	2,520	2,608	2,295
Net Debt	(609)	(2,115)	(3,204)	(4,413)	(5,378)
Change in Net Debt	(258)	(1,508)	(1,088)	(1,209)	(966)
Key Balance Sheet Data					
Property, Plant & Equipment	3,982	4,163	4,397	4,546	4,694
Other Non-Current Assets	300	294	150	150	150
Trade Receivables	2,077	1,782	2,048	1,812	1,939
Cash & Equivalents	903	2,178	3,267	4,476	5,441
Other Current Assets	3,070	2,755	2,941	2,888	2,962
Total Assets	10,331	11,172	12,803	13,871	15,186
Long-Term Debt	31	39	39	39	39
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	263	24	24	24	24
Other Current Liabilities	883	988	896	812	859
Total Liabilities	1,177	1,051	959	875	922
Total Equity	9,154	10,121	11,843	12,996	14,263
Total Equity & Liabilities	10,331	11,172	12,803	13,871	15,186
iQmethod* SM - Bus Performance					
Return On Capital Employed	47.3%	26.0%	26.6%	19.6%	18.5%
Return On Equity	51.0%	26.8%	28.5%	20.1%	19.0%
Operating Margin	56.0%	49.5%	43.0%	40.6%	39.4%
EBITDA Margin	63.0%	58.9%	53.2%	53.5%	51.4%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	1.0x	1.4x	1.1x	1.4x	1.3x
Asset Replacement Ratio	2.9x	1.3x	1.3x	1.2x	1.2x
Tax Rate (Reported)	6.7%	14.1%	5.2%	7.9%	7.9%
Net Debt-to-Equity Ratio	-6.6%	-20.9%	-27.1%	-34.0%	-37.7%
Interest Cover	NM	NM	NM	NM	NM
Key Metrics					

* For full definitions of *iQmethod* SM measures, see page 7.

Company Description

Largan, established in 1987, is based in Tai Chung, Taiwan. The company is Taiwan's leading optical lens manufacturer for digital imaging products. These include digital cameras, mobile phone cameras, projectors, and MFPs.

Investment Thesis

We believe that Largan will suffer from: (1) weaker global handset demand (80% of revenues), (2) less customer diversification (50%+ from Nokia and Motorola camp) and (3) potential 3MP project delays. As a result, we're turning more conservative on the company. We'll turn more positive on the stock if we see better order flow visibility.

Stock Data

Price to Book Value	2.4x

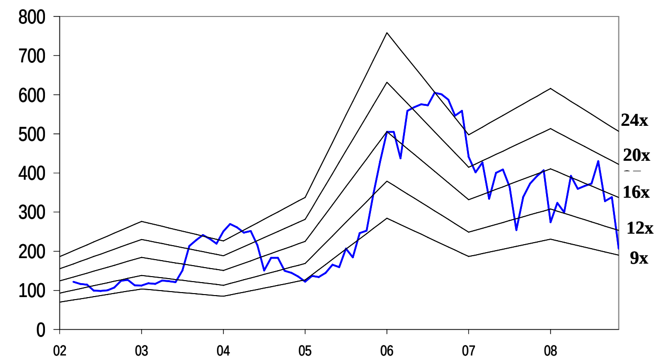
RC

Table 1: Largan: Earnings revisions

(NT$ mn)	FY08E New	FY08E Old	Diff (%)	FY09E New	FY09E Old	Diff (%)
Total sales	7,474	7,878	-5.1	6,613	6,912	-4.3
Gross Profit	4,026	4,246	-5.2	3,392	3,551	-4.5
Operating income	3,210	3,397	-5.5	2,686	2,821	-4.8
Pretax income	3,308	3,494	-5.3	2,718	2,853	-4.7
Net income	3,135	3,309	-5.3	2,502	2,626	-4.7
EPS (NT$)	24.31	25.66	-5.3	19.23	20.18	-4.7
Gross margin	*53.9%*	*53.9%*		*51.3%*	*51.4%*	
OP margin	*43.0%*	*43.1%*		*40.6%*	*40.8%*	
Net margin	42.0%	42.0%		37.8%	38.0%	

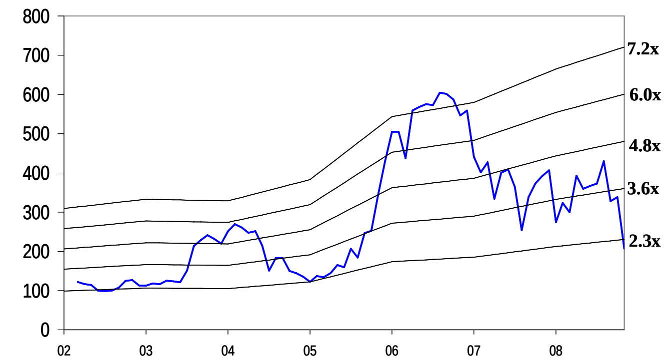
Source: Merrill Lynch estimates

Chart 1: Largan's P/E band (Taiwan GAAP)



Source: TEJ, Merrill Lynch estimates

Chart 2: Largan's P/BV band



Source: TEJ, Merrill Lynch estimates

Table 2: Taiwan hardware valuation comparison

	ML Symbol	ML Rating	Price 26 Nov 2008	Mkt Cap (US$mn)	EPS 2008E	EPS 2009E	EPG 2008E	EPG 2009E	PER(x) 2008E	PER(x) 2009E	Perform YTD
Handset /component											
HTC	HTCCF	C-3-7 Underperform	315.0	7,131	38.1	34.5	33%	-10%	8.3	9.1	-47%
Largan	LGANF	C-3-7 Underperform	220.0	858	24.3	19.2	86%	-21%	9.0	11.4	-49%
CCI	CPCMF	C-3-7 Underperform	15.1	278	2.2	2.6	-45%	17%	6.7	5.8	-81%
FIH	FXCNF	C-3-9 Underperform	1.9	1,792	0.4	0.3	-52%	-10%	5.2	5.8	-89%
Silitech	SLKCF	C-2-7 Neutral	45.6	234	6.4	6.1	27%	-4%	7.1	7.4	-64%
Merry	MMECF	C-2-7 Neutral	23.8	114	4.7	4.0	-12%	-14%	5.1	5.9	-76%
Catcher	CHERF	C-3-8 Underperform	51.5	926	7.8	7.6	-23%	-3%	6.6	6.8	-73%
FTC	FXTCF	C-2-8 Neutral	64.0	1,625	8.5	8.0	3%	-6%	7.5	8.0	-76%
BYD	BYDDF	C-1-9 Buy	11.0	2,921	0.6	1.0	-8%	65%	17.4	10.6	-79%
AAC*	n.a.	n.a.	2.5	372	0.6	0.7	46%	9%	3.9	3.5	-76%
IAC	IVAPF	C-3-8 Underperform	21.6	332	5.0	3.2	-7%	-36%	4.4	6.8	-67%
Average							4%	-1%	7.4	7.4	-71%
PC											
Asustek	AKCPF	C-3-7 Underperform	36.4	4,628	5.8	4.4	1%	-24%	6.3	8.3	-63%
Acer	ASIYF	C-1-7 Buy	41.5	3,075	5.1	6.0	33%	16%	8.1	7.0	-35%
Hon Hai	HNHAF	C-3-7 Underperform	58.4	12,984	8.5	7.7	69%	-10%	6.8	7.6	-71%
Wistron	WICOF	C-2-7 Neutral	22.0	998	4.8	4.6	38%	-4%	4.6	4.7	-64%
Compal	CMPLF	C-1-7 Buy	16.4	1,937	3.4	3.4	15%	0%	4.8	4.8	-54%
Mitac	MTCXF	C-3-8 Underperform	10.5	481	1.5	1.4	-55%	-10%	6.9	7.7	-67%
Inventec	IVCJF	C-3-8 Underperform	8.3	634	2.0	1.6	3%	-19%	4.1	5.0	-56%
Quanta	QUCPF	C-3-7 Underperform	37.0	4,049	5.0	4.5	19%	-10%	7.4	8.2	-20%
Average							15%	-7%	6.1	6.7	-54%

Table 2: Taiwan hardware valuation comparison

	ML	ML	Price	Mkt Cap	EPS		EPG		PER(x)		Perform
	Symbol	Rating	26 Nov 2008	(US$mn)	2008E	2009E	2008E	2009E	2008E	2009E	YTD
PC component											
Simplo	SPLOF	C-1-7 Buy	73.4	458	11.3	11.9	86%	5%	6.5	6.2	-55%
Chicony	CCNYF	C-3-8 Underperform	26.1	435	5.4	4.7	139%	-12%	4.8	5.5	-57%
SZS	SZUSF	C-2-7 Neutral	76.0	283	10.3	10.8	18%	5%	7.4	7.0	-62%
Average							32%	-7%	6.2	6.2	-58%

Source: BBG, Merrill Lynch estimates

Table 3: Largan quarterly P&L

NT$mn (year-end Dec)	1Q08	2Q08	3Q08	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E	2008E	2009E	2010E
Sales	1,713	1,884	2,159	1,718	1,488	1,521	1,753	1,852	7,474	6,613	7,076
Cost of goods sold	-794	-875	-980	-799	-729	-742	-855	-894	-3,448	-3,221	-3,538
Gross profit	919	1,009	1,179	919	759	779	897	957	4,026	3,392	3,538
Operating expenses	-180	-202	-254	-179	-158	-162	-188	-199	-816	-707	-750
Operating profit	739	806	924	740	601	616	710	758	3,210	2,686	2,788
Net non-op	-135	15	209	8	8	8	8	8	97	32	32
Pretax profit	604	821	1,134	748	609	624	718	766	3,308	2,718	2,820
Tax expenses	-20	-99	-1	-52	-37	-75	-43	-61	-172	-216	-224
Net profit	584	722	1,133	696	573	550	675	705	3,135	2,502	2,596
EPS (NT$)	4.53	5.60	8.78	5.40	4.40	4.22	5.18	5.42	24.31	19.23	19.95
Margin (%)	**1Q08**	**2Q08**	**3Q08**	**4Q08E**	**1Q09E**	**2Q09E**	**3Q09E**	**4Q09E**	**2008E**	**2009E**	**2010E**
Gross margin	53.7%	53.5%	54.6%	53.5%	51.0%	51.2%	51.2%	51.7%	53.9%	51.3%	50.0%
Operating expense	-10.5%	-10.7%	-11.8%	-10.4%	-10.6%	-10.7%	-10.7%	-10.8%	-10.9%	-10.7%	-10.6%
Operating margin	43.1%	42.8%	42.8%	43.1%	40.4%	40.5%	40.5%	40.9%	43.0%	40.6%	39.4%
Pre-tax margin	35.3%	43.6%	52.5%	43.6%	40.9%	41.1%	41.0%	41.4%	44.3%	41.1%	39.9%
Net margin	34.1%	38.3%	52.5%	40.5%	38.5%	36.1%	38.5%	38.1%	42.0%	37.8%	36.7%
Tax rate	-3.3%	-12.1%	-0.1%	-7.0%	-6.0%	-12.0%	-6.0%	-8.0%	-5.2%	-7.9%	-7.9%
Sequential growth (%)	**1Q08**	**2Q08**	**3Q08**	**4Q08E**	**1Q09E**	**2Q09E**	**3Q09E**	**4Q09E**	**2008E**	**2009E**	**2010E**
Sales	-9.5%	10.0%	14.6%	-20.4%	-13.4%	2.2%	15.2%	5.7%	27.1%	-11.5%	7.0%
Cost of goods sold	-4.5%	10.3%	12.0%	-18.5%	-8.7%	1.8%	15.2%	4.6%	32.2%	-6.6%	9.8%
Gross profit	-13.4%	9.7%	16.9%	-22.0%	-17.4%	2.6%	15.2%	6.7%	23.0%	-15.7%	4.3%
Operating expenses	79.8%	12.2%	25.7%	-29.8%	-11.8%	3.0%	15.5%	6.2%	na	-13.4%	6.2%
Operating profit	-23.1%	9.1%	14.6%	-19.9%	-18.8%	2.5%	15.1%	6.8%	10.3%	-16.3%	3.8%
Net non-op	na	na	na	-96.2%	0.0%	0.0%	0.0%	0.0%	na	na	0.0%
Pretax profit	-37.5%	36.0%	38.0%	-34.0%	-18.6%	2.5%	14.9%	6.7%	10.1%	-17.8%	3.8%
Tax expenses	-78.6%	na	-98.8%	na	-30.2%	na	-42.5%	42.3%	-59.2%	25.3%	3.8%
Net income	-33.2%	23.6%	56.8%	-38.5%	-17.7%	-4.0%	22.8%	4.5%	21.5%	-20.2%	3.8%

Source: Company data, Merrill Lynch estimates

RC

Price objective basis & risk

Largan Precision (LGANF)

Our PO of NT$173 is based on 9x FY09E EPS, which is the trough of its historical P/E. Largan derated in 2005-06 due to yield rate losses on technology transitions. We believe Largan will be discounted on the weaker handset outlook and traded back to its historical trough. Upside risk is stronger-than-expected handset demand. Risk for the stock to go down further is quicker-than expected lens module price erosion and worse than expected global handset demand.

Analyst Certification

I, Laura Chen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

Foreign investment in Taiwan securities is regulated and restricted. Currently, foreign investment in Taiwan securities is permitted by investment through: (1) global depository receipts, (2) convertible bonds, (3) mutual funds issued offshore of Taiwan, and (4) a special foreign institutional investors (FINIs) and foreign individual investors (FIDIs) program supervised by the Taiwan SFB whereunder FINIs/FIDIs may apply for investment ID to invest in Taiwan securities by registration with Taiwan Stock Exchange. FINIs will additionally need consent from the foreign exchange authority, ie, the Central Bank of China. In addition to the limitations above, various industry-specific percentage-based limitations on foreign ownership of Taiwan companies (and in some cases prohibitions) may apply. Investments are subject to exchange rate and currency conversion restrictions and risks. Dividends and interest earned by foreign investors' Taiwan securities/instruments are generally subject to a 20% withholding tax. Ordinary shares are not available to ML private client accounts in the U.S.

This report is distributed in the Republic of China by Merrill Lynch, Pierce, Fenner & Smith Inc., Taiwan Branch, which is regulated by the US SEC and the SFB of the Republic of China.

Research provided by Merrill Lynch Global (Taiwan) Limited, a registered SICE, for distribution in Taiwan is provided under contract to Merrill Lynch, Pierce, Fenner & Smith Inc., Taiwan Branch.

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Acer, Inc	ASIYF	2353 TT	Tony Tseng, CFA
	BYD	BYDDF	1211 HK	Daniel Kim, CFA
	Cheil Industries	CLFUF	001300 KS	Simon Dong-je Woo, CFA
	Compal Electron	CMPLF	2324 TT	Tina Chang, CFA
	Coretronic	CCOCF	5371 TT	Jeffrey Su
	Delta Elect	DLTEF	2308 TT	Jeffrey Su
	Ju Teng Intl	JUTGF	3336 HK	Ronnie Ho
	LG Electronics	LGEAF	066570 KS	Daniel Kim, CFA
	Samsung Techwin	SGTWF	012450 KS	Simon Dong-je Woo, CFA
	Simplo Tech	SPLOF	6121 TT	Tina Chang, CFA
	SSCP CO LTD	SSCPF	071660 KS	Daniel Kim, CFA
	TPV	TPVTF	903 HK	Daniel Kim, CFA
	Venture Corp.	VEMLF	VMS SP	Ronnie Ho

RC

APR - Technology Hardware Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
NEUTRAL				
	Alpha Networks I	AHNWF	3380 TT	Laura Chen
	AU Optronics	AUO	AUO US	Jeffrey Su
	AU Optronics	AUOPF	2409 TT	Jeffrey Su
	Foxconn Tech	FXTCF	2354 TT	Tony Tseng, CFA
	Kingboard	KBDCF	148 HK	Ronnie Ho
	Lenovo Group	LNVGF	992 HK	Daniel Kim, CFA
	Lenovo Group	LNVGY	LNVGY US	Daniel Kim, CFA
	Lite-On Tech	LOTZF	2301 TT	Jeffrey Su
	Merry Electron	MMECF	2439 TT	Laura Chen
	Qisda Corp	BNQCF	2352 TT	Jeffrey Su
	Shin Zu Shing	SZUSF	3376 TT	Tina Chang, CFA
	Silitech	SLKCF	3311 TT	Laura Chen
	Wistron	WICOF	3231 TT	Tony Tseng, CFA
	Yageo Corp	YGEQF	2327 TT	Ronnie Ho
UNDERPERFORM				
	Asustek	AKCPF	2357 TT	Tony Tseng, CFA
	Catcher Tech	CHERF	2474 TT	Tony Tseng, CFA
	Chi Mei Opto	CMEOF	3009 TT	Jeffrey Su
	Chicony Elect	CCNYF	2385 TT	Tina Chang, CFA
	Compal Comm	CPCMF	8078 TT	Laura Chen
	Epistar Corp	EPIPF	2448 TT	Jeffrey Su
	Everlight Elec	EVLEF	2393 TT	Jeffrey Su
	Foxconn Intl Hld	FXCNF	2038 HK	Tony Tseng, CFA
	Gemtek Technolog	GTKTF	4906 TT	Laura Chen
	Hon Hai Prec.	HNHAF	2317 TT	Tony Tseng, CFA
	HTC Corp.	HTCCF	2498 TT	Tony Tseng, CFA
	InnoLux	INXDF	3481 TT	Jeffrey Su
	Inventec	IVCJF	2356 TT	Tina Chang, CFA
	Inventec Applian	IVAPF	3367 TT	Tina Chang, CFA
	Largan Precision	LGANF	3008 TT	Laura Chen
	LG Display Co., Ltd.	LPHLF	034220 KS	Daniel Kim, CFA
	LG Display Co., Ltd.-A	LPL	LPL US	Daniel Kim, CFA
	Mitac Intl	MTCXF	2315 TT	Tina Chang, CFA
	Quanta Computer	QUCPF	2382 TT	Tony Tseng, CFA
	Radiant	ROPTF	6176 TT	Jeffrey Su
	Samsung Elec M	SSEMF	009150 KS	Daniel Kim, CFA
	Samsung SDI	SSDIF	006400 KS	Daniel Kim, CFA
	Seoul Semicon	SLSOF	046890 KS	Simon Dong-je Woo, CFA
	Wellypower	XTTWF	3080 TT	Jeffrey Su
	ZTE Corp - H	ZTCOF	763 HK	Ronnie Ho

iQmethod SM Measures Definitions

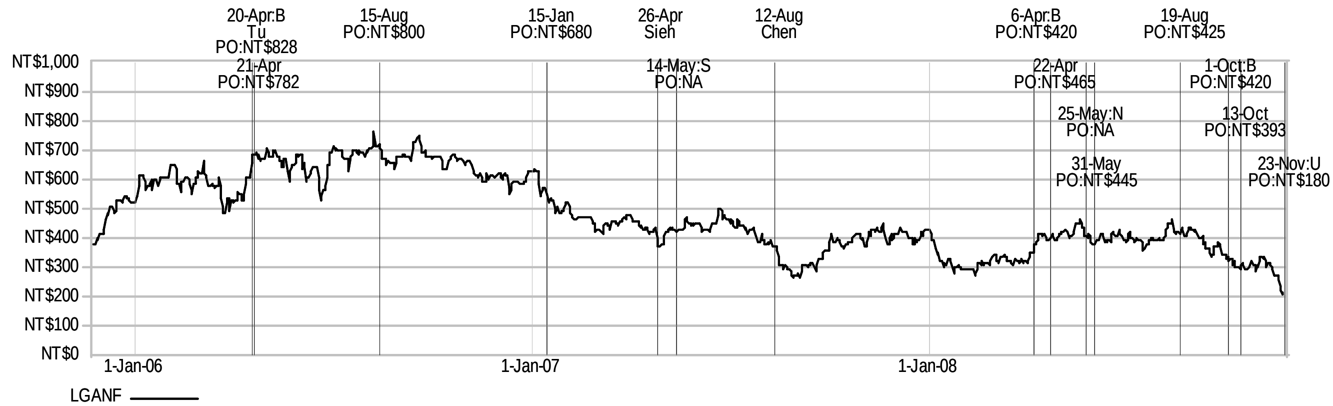
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

Important Disclosures

LGANF Price Chart



Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of October 31, 2008 or such later date as indicated.

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	60.00%	Buy	10	18.87%
Neutral	17	17.00%	Neutral	5	31.25%
Sell	23	23.00%	Sell	2	10.00%

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent Merrill Lynch Comment referencing the stock.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Largan Precision.

The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Largan Precision.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.